INVESTMENT
BEWARE SHARE PRICE SPIKES

MINING
THE BRISTOW TOUCH
Why Randgold is winning

PROPERTY
INVESTORS SWOOP IN ON AFRICA'S BOOM

ENGLISH EDITION

finweek

22 October 2015

FIND US AT:
fin24.com/finweek

INSIDE:
COLLECTIVE INSIGHT
CHANGING INVESTOR HABITS

MEDIA REDEFINED
HOW TO SPOT THE FUTURE WINNERS

SHARE VIEWS ON:
ZEDER
CLICKS
RICHEMONT
TSOGO SUN

SA: R27.50 (incl. VAT)
Other countries: R24.12 (excl. VAT)

WE TEST THE SIXTH-GENERATION **BMW 3 SERIES**


NP300
HARDBODY

from the editor

JANA MARAIS

One of the highlights of my job is the annual media lunch hosted by Randgold Resources' CEO Mark Bristow, a straight talker whose track record at Randgold has been nothing short of impeccable.

As David McKay writes on page 9, over the past 20 years, during which the gold price has crashed twice, Randgold has never impaired a single asset; it has rarely had net debt; and it has never issued shares to finance itself, or buy assets. Not bad for a company that mines gold in places like the Democratic Republic of Congo (DRC). In contrast, the world's top 10 gold mining companies have gone cap in hand to shareholders to raise \$90bn in equity over the past decade (in addition to about \$60bn's debt). Impairments over the period? A whopping \$70bn.

In short, the industry is extremely poor at allocating capital. Yet Bristow shared some good investment advice for those brave souls who still want gold in their portfolios:

'The biggest risk in mining is not geopolitical, but the quality of the asset you're dealing with.'

Unless the ore body is world-class, Randgold won't consider it. And where exploration budgets are often the first to get cut when times are tough, Bristow believes it is core to the business. "If you get the geology right, the mining engineers will always do a good job."

'The quality of management is crucial.'

You need a team that is hands-on, knows the company backwards and can constantly reinvent itself. Bristow believes five to seven operations are the maximum number for management to stay on top of the business.

'Don't mix cow shit and ice cream.'

Or, in non-Bristow language, don't grow just for the sake of growing. With an industry in trouble, Randgold is spoilt for choice when it comes to possible acquisitions, as illustrated by the current proposal to team up with AngloGold Ashanti to fix its long-struggling Obuasi mine in Ghana (a world-class ore body, according to Bristow). Any deal will have to meet Randgold's strict investment criteria.

For Bristow, it's all about return on investment, not size. Perhaps something shareholders should keep in mind when they vote on the AB InBev/SABMiller deal? ■

contents

EDITORIAL & SALES

Editorial Editor Jana Marais **Deputy Editor** Anneli Groenewald **Managing Editor** Ruwaydah Harris **Journalists and Contributors** Simon Brown, Mandy de Waal, Moxima Gama, David McKay, Marcia Klein, Nicola Kleyn, Schalk Louw, Shoks Mzolo, Justine Olivier, Iwan Swiegers, Jaco Visser, Glenda Williams **Sub-Editors** Stefanie Muller, Jana Jacobs **Office Manager** Thato Marolen **Layout Artists** Beku Mbotoli, Tshebetso Ditabo, Zandri van Zyl **Publisher** Sandra Ladas **General Manager** Dev Naidoo **Advertising** Monice Kruger 011-877-6153 / monice.kruger@finweek.co.za **Circulation Manager** Armand Kasselman 021-443-9975

Published on behalf of Media24 by New Media Publishing (PTY) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmediapub.co.za
Executive Directors **Group Commercial Director:** John Psillos **Managing Director:** Bridget McCarney **Non Executive Director:** Irna van Zyl
Printed by Paarlmedia and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek** Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS
087 740 1019
subs@finweek.co.za

Fax
021 405 1031

SHOPS
0861-888-989
assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

opinion

By Nicola Kleyn

BUSINESS ETHICS

A murky business

The recent VW scandal that rocked the automotive industry raises questions regarding ethical conduct and accountability. How did VW get away with it for so long and when did such behaviour become an option?

Business, both globally and locally, has been rocked by two corruption scandals in recent weeks. At home we've seen Japanese conglomerate Hitachi agree to pay a R250m fine over 'improper' payments made to ANC investment arm, Chancellor House. While the economic impact on South Africa, contributed to by Hitachi's failure to deliver on tender obligations, is being felt in the form of ongoing electricity supply constraints and Eskom's attempts to raise tariffs yet again, it was reported by Bloomberg that Chancellor House enjoyed a 5 000% return.

As serious as the issue is, it pales in comparison to the Volkswagen (VW) scandal, which broke in September when the US government raised questions about the group's diesel vehicle emissions. The impact on stakeholders is staggering: some 11m vehicles are affected, 4 000 vehicles have been removed from UK dealerships alone and, in just days, €29bn was shaved off the market cap of the world's largest automaker.

As the scandal began to unfold a number of questions occurred to me, not least of which was to wonder how – given the sheer timescale and depth of the deception – the cover-up remained in place for so long. The allegation that VW cheated by installing sophisticated 'defeat devices' is shocking, that it did so over seven years (2008 to 2015) is indicative of something very wrong at the core of the company. *The Wall Street Journal* noted that the US Environmental Protection Agency was already investing discrepancies between VW's lab results and on-road emissions as early as 2012. It seems VW was aware of these tests, but continued regardless.

Although fingers could be pointed at the (now ex) CEO Martin Winterkorn, the unusual hybrid of family control, government ownership and labour influence has resulted in suggestions that the governance of VW provided a fertile breeding ground for the scandal. Founded by the Nazis before World War II, VW's ownership is dominated by the Porsche and Piëche families. Labour representatives hold three of the five seats on the executive committee and half the board seats are held by union officials and labour. The Lower Saxony government owns 20% of voting shares and appoints the remaining two seats.

Given the often turbulent relationships between management and unions in SA, the closeness of owners and unions at VW might be seen as utopian, but accusations of a clannish board and a deep-rooted hostility to environmental regulations among engineers have resulted in corruption on a grand scale. The effects of the scandal are hardly limited to employees, customers, dealers and shareholders.

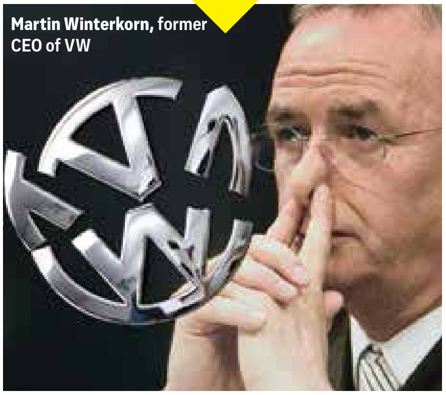
The impact on stakeholders is staggering: some

11m

vehicles are affected, 4 000 vehicles have been removed from UK dealerships alone and, in just days,

€29bn

was shaved off the market cap of the world's largest automaker.



Martin Winterkorn, former CEO of VW

Ulrich Baumgarrten via Getty Images

Aside from the German government's direct involvement with VW (many high-level politicians have sat on its board), the issue calls for Germany – which has been relentless in condemning Greek cheating on public accounts – to clean its own house. German Chancellor Angela Merkel recently stressed to the BBC: "I think the reputation of German industry... is not so shaken that we are no longer considered a good place to do business."

The *Financial Times* newspaper wasn't so sure; according to commentator Wolfgang Münchau "the Volkswagen scandal has the potential to unhinge the German economic model. It has been over-reliant on the car industry".

Not only does the scandal raise philosophical issues for Germany, it's also likely to hit its back pocket. Given the price premium commanded by other German automakers, whose brand positioning rests on high-quality German engineering, global demand of such vehicles is likely to be affected.

This murky tale also leads to questions about whose responsibility it is to promote ethical conduct. At a recent advisory meeting, held prior to this news breaking, one of our board members, Professor Howard Thomas from Singapore Management University strongly disputed that business schools alone should be held responsible for teaching ethics and governance. The VW case shows that upholding ethical conduct must rest on broader shoulders. While we, as business schools, undoubtedly have a role to play, the responsibility for driving ethical conduct needs to be shouldered by business, government, regulators and employees alike. VW – the 'people's car' – is a stark reminder of how, when responsibility is eschewed, a proud heritage of 78 years can be put in jeopardy.

Furthermore, the failure of industry regulators in Europe – and specifically one of the most highly-regulated countries in the world – to detect problems makes us question the notion that standards emanating from developed markets might be more rigorous and relevant in guiding our choices as consumers. In business, and certainly in our teaching as a business school proudly operating in a key dynamic market, the event must make us evaluate whether global companies headquartered in developed countries are, indeed, sources of best practice.

As a branding and reputation management case study, I have no doubt that, for some time to come, the VW scandal will serve as one of the greatest examples of destroying brand equity and reputation. We need to learn from it. ■

editorial@finweek.co.za

Professor Nicola Kleyn *is dean of the University of Pretoria's Gordon Institute of Business Science (Gibs).*

>>LETTER FROM NIGERIA: Buhari's cabinet candidates p.8
>>IN THE NEWS: How Randgold has thrived while others falter p.9

in brief

MEGA-MERGER

$3bn

The fee (R40.3bn) global beer brewer Anheuser-InBev (AB InBev) will pay SABMiller if its proposed takeover deal fails to get all the regulatory clearances it requires globally. The break fee is the highest on record for a London-listed company. The takeover deal is valued at $104bn, which would make it the world's third-largest corporate takeover deal. It already faced opposition from the Public Investment Corporation (PIC), which owns 3.14% of SABMiller, forcing AB InBev to promise to retain SABMiller's secondary listing on the JSE and to keep its African head office in Johannesburg.

CASH TO BURN

R900m

Investment group PSG has about R900m of cash available to make new investments, **CEO Piet Mouton** told *Business Day* following the release of its results for the six months to end August. The group grew recurring HEPS by 42% to 354.4c. The group is "always looking at various new acquisitions at both PSG level and at the underlying investments (which include Curro Holdings, Zeder and Capitec)", Mouton said.

PLAYBOY COVERS UP

800 000

The current circulation of *Playboy* magazine, down from 5.6m in 1975. As of next March, the print edition of *Playboy* will no longer publish images of naked women as part of a redesign aimed at halting its declining sales. Its website dispensed with nudity in August last year already, resulting in the average age of its readers dropping from 47 to just over 30 and web traffic increasing from about 4m unique users a month to around 16m, nytimes.com reported. *Playboy*, which was founded by Hugh Hefner in 1953, makes most of its money from licensing its brand and logo for merchandise including bath products, fragrances, clothing, liquor and jewellery, it reported.

PROBLEMS AT PRASA

R8bn

An estimated escalation of R8bn in a contract for new Metrorail trains is just one of many discrepancies found by the auditor-general in contracts that were issued by the Passenger Rail Agency of SA (Prasa). According to *Business Day,* a deal was signed with Gibela Rail Transport Consortium in 2013. While the contract was valued at R51bn, the contract price was escalated to R59.6bn. According to the newspaper, the consortium consisted of French transport group Alstom (61%), New Africa Rail (9%), and empowerment consortium Ubumbano Rail Proprietary Limited (30%), with Prasa selecting the BEE partners.

Gallo Images / Getty Image/ Bloomberg

SAVING HIGHVELD

30c

Evraz Highveld Steel and Vanadium's creditors voted in favour of a business rescue deal on 13 October, which will see them receive only 30c for every rand owed. Highveld owes about R1.2bn to about 600 suppliers. As part of the proposal, Hong Kong-listed International Resources Group will pay R350m for Highveld's assets. The loss-making steelmaker, which entered business rescue proceedings in April, was hit by declining steel prices, rising costs and declining productivity due to its ageing infrastructure.

VW CUTS INVESTMENT

€1bn

Volkswagen, which is facing massive fines from regulatory authorities in the US and Europe for breaching emissions rules, said it will cut investment by €1bn a year as a result of the scandal, bbc.com reported. The announcement forms part of its broader cost-reduction plans, where it aims to cut costs by at least €10bn a year by 2018. The carmaker said it would now be fitting the kinds of clean diesel technologies needed to meet stricter US standards on all its cars in both the US and Europe, bbc.com reported.

CHINESE IMPORTS PLUMMET

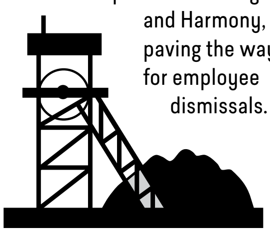
20%

Chinese imports fell by 20% in September due to weak commodity prices and domestic demand, Reuters reported. It said that the fall in imports "added to worries about slowing economic growth in the world's second-largest economy", and the health of the global economy.

DOUBLE TAKE BY RICO

THE GOOD

The National Union of Mineworkers (NUM) signed a two-year wage deal in the coal sector on 13 October, ending a week-long strike. The deal will see lowest-paid workers receive increases of between R750 and R1 000 a month in the first year, and 7.5% in year two. However, NUM's rival, the Association of Mineworkers and Construction Union (Amcu) is expecting to go on strike at Sibanye Gold, AngloGold Ashanti and Harmony Gold – even though the strike will be unprotected at AngloGold and Harmony, paving the way for employee dismissals.



THE BAD

The ANC's national general council has officially endorsed a policy proposal that commercial farmers should transfer 50% of ownership to farm workers, according to media reports. No official policy currently exists on the 50/50 proposal. Concerning is the ANC's continual shift of land reform goal posts over the past decade, without much clarity on the consultation processes behind such shifts. In the absence of a recent land audit, uncertainty is denting the agriculture sector, with *Business Day* reporting a drop of 10% in fixed investments in real terms in the sector since February 2014. It will hurt food security and, ironically, land reform and restitution.

THE UGLY

If you don't donate to the ANC, your business is in danger, President Jacob Zuma told guests at a gala dinner on 8 October. "When [the ANC's treasurer general] knocks, open the doors. If he says we need something he will ask one thing only. If he says support the ANC, just write a blank cheque with the instruction that it should be six digits." Just beware of the US Securities and Exchange Commission, which recently made Japan's Hitachi cough up $19m (R255m) under the US Foreign Corrupt Practices Act to settle a case over "improper payments" made to the **ANC's Chancellor House.**

"I don't allow the team to come in and give me excuses based on the economy, the weather, the wind and the tide – we have to look at our own business and control what we are in charge of." – Pick n Pay CEO Richard Brasher tells *Business Day* after reporting an 8.5% growth in turnover to R34.9bn for the 26 weeks to 30 August. HEPS were up 23.4% to 66.62c. Brasher, a former Tesco executive who joined Pick n Pay in 2013 to turn around the ailing business, said promotional activity such as the group's 48th birthday campaign, Stikeez and price comparison tool Brand Match were key drivers of sales, which has been his focus rather than cost-cutting.

Who will Buhari choose?

Nigeria's President Muhammadu Buhari has finally shown (some of) his hand. Following the submission of part of his proposed ministerial list to the Nigerian senate last week, the country can now start to get an idea of who might be helping steer Africa's largest economy over the next few years. If you've been out of the Nigeria loop for a while, you've not missed much; since his inauguration in late May, Buhari has made very few appointments, and Nigeria's chattering classes have been desperate for what has become known here as 'The List'. Buhari is yet to give an idea of which name he'll match to which ministry. In the meantime, here are a few names from the first batch of The List to keep an eye on:

Rotimi Amaechi

The charismatic former governor of Rivers State – the hub of Nigeria's oil business – Amaechi's defection to Buhari's All Progressives Congress (APC) in late 2013 was a huge political story in Nigeria. Rivers is historically a People's Democratic Party stronghold and, in defecting, Amaechi knew he was unlikely to turn Rivers around to APC voting. He brought with him a high profile and substantial funds, but also concerns over his reputation, which could prove difficult for Buhari as he tries to build a squeaky clean executive. There are suggestions Amaechi may assume responsibility for Nigeria's solid minerals industries.

> Buhari has made very few appointments, and Nigeria's chattering classes have been desperate for what has become known here as 'The List'.

Babatunde Fashola

Former governor of Lagos State, Fashola is praised for his reforms in Nigeria's chaotic megacity that helped clean up the metropolis both literally and metaphorically. A workaholic technocrat, Fashola fits well within Buhari's ascetic, strict style of government and he is popular with international investors and diplomats.

Some of his spending while in the governor's seat in Lagos has raised questions in recent months, but he is still seen as something of a star in Nigeria's political sky. While any ministry would be happy to have him, Fashola is tipped either for justice or for federal capital territory minister; some say putting him in charge of relatively organised and smooth-running Abuja would be a waste of his talents.

Kemi Adeosun

One of the three women on Buhari's initial list of 21, Adeosun is an economic specialist and former commissioner for finance in Ogun State in Nigeria's southwest. A member of the Institute of Chartered Accountants in England and Wales as well as in Nigeria, her experience in the UK is in line with political commentators' expectations that Buhari would appoint international experts and diaspora Nigerians. Tipped for the finance ministry, she would be following in the footsteps of the high-profile and internationally well-regarded Ngozi Okonjo-Iweala.

Kayode Fayemi

Said to be serious, straight-shooting and exceptionally politically savvy, Fayemi is the former governor of western Ekiti State. Lauded for his concession of Ekiti's 2014 gubernatorial elections to his rival Ayo Fayose, he is a specialist in African development, democratisation and governance and has lectured widely on both. While governor in Ekiti, he worked hard to prove his administration's transparency. Speculation puts him in Nigeria's foreign affairs ministry, an essential role on the international stage at a time when Nigeria is trying to show a break with previous administrations' bad habits. ■

editorial@finweek.co.za

GLOBAL INEQUALITY

1%

Half of the world's wealth is held by 1% of its population, according to the latest wealth report by Credit Suisse. The report indicated that there was a slowdown in the pace at which the wealth of the middle classes grew, compared with that of the very rich, according to theguardian.com. In contrast, the poorest half of the world's population owns just 1% of its assets. A person holding $3 210 (R43 097) falls in the category of the wealthiest 50% of the world, while you would need to hold $759 900 (R10.2m) to be in the top 1%.

fin24 #trending on fin24.com

AB InBev buys SABMiller for R1.4tr in record deal

Anheuser-Busch (AB) InBev raised its bid for SABMiller to £68bn (R1.4tr) – an offer that was accepted, and will result in a single company owning a third of the world's beer market.

13/10/15 14:34

SAA responds to *The New Age* spend

Defending its R10m spend on newspapers from *The New Age*, SAA said it had about 20 daily, weekly and weekend titles for distribution and use by its customers in lounges and on board aircrafts. "The insinuation that there was political interference without any proof is deeply concerning," SAA spokesperson Tlali Tlali said.

13/10/15 14:39

MTN targets 'free-loading' WhatsApp

MTN South Africa's CEO Mteto Nyati wants over the top (OTT) chat operators, such as WhatsApp, to contribute to local network capacity. Such applications were "getting huge benefit", without contributing to local telecoms infrastructure, according to MTN. Its total network investment for 2015 is expected to be R10bn. "What have these OTT players invested in South Africa? Zero," Nyati told Fin24.

14/10/15 10:12

By David McKay

Randgold's Bristow shows fellow gold miners how it's done

Randgold has stood firm in the face of a turbulent market that has seen two crashes in the gold price in two decades. We take a look at how the miner has managed to thrive in these tough conditions.

There's a certain irony in Randgold Resources CEO, Mark Bristow's, admiration for the mining house leaders of old, such as Graham Boustred, the former deputy chairman of Anglo American. At a recent media lunch, Bristow described Boustred as the type of leader who you could count on to make decisions and one that would drive a hard bargain.

That's about where the comparisons between Boustred and Bristow end.

Whereas Anglo under Boustred was a sprawling empire, Bristow's Randgold is a specialist, and run like a family business, with one eye fixed firmly on the till. Bristow's personal wealth is closely attached to Randgold, a firm he founded in 1995, and has run since.

The figures speak for themselves.

During a 20-year period, in which the gold price has crashed twice, Randgold has never impaired a single asset; it has rarely had net debt; and it has never issued shares to finance itself, or buy assets.

In fact, the company approved a two-for-one share split in 2004 because there were too few shares in issue.

"Never give your equity away," is right out of the Bristow handbook of how not to destroy a gold business. And there are plenty of other not-so-fun facts which suggest that the world's gold industry is the architect of its own problems.

One is the poor allocation of capital.

According to Bristow, the world's top 20 gold mining businesses have raised $150bn

Randgold has never impaired a single asset; it has rarely had net debt; and it has never issued shares to finance itself, or buy assets.

of debt in 10 years, yet they are producing the same amount of gold while their combined market capitalisation is unchanged in eight years. "That's a lot of capital to just tread water," said Bristow.

In contrast, Randgold has thrived.

In 2012, just as the gold price shed $400 per ounce, Randgold's market value was equal to the combined value of the top 10 companies in its sector. Even today, it is still more valuable as a company than the other top 10 firms.

"The company retains an enviable position among gold producers with high-quality assets capable of sustaining production rates and generating cash at lower prices," says investment firm BMO Nesbitt Burns.

In a report on 6 August, JP Morgan Cazenove said: "The group has an enviable track record of growing low-cost ounces in Africa with a well-deserved premium rating."

It later went on to observe that Randgold was well-placed to capitalise on sector merger and acquisition activity.

A month later, Bristow's Randgold unveiled a proposal with AngloGold Ashanti to joint venture the latter's troublesome, but giant, Obuasi mine in Ghana – a gold resource Bristow said was world class, but marred by a century of legacy issues, including unnamed environmental liabilities.

Bristow said the offer of a joint venture was more interesting than an earlier proposal by AngloGold that Randgold run the SA firm's entire Continental Africa division – a claim AngloGold said was a mere case of spitballing three years ago, long since abandoned.

There is something of the *enfant terrible* about Bristow. He loves to poke big companies in the eye.

For instance, it's with a certain amount of glee that he reports how the world's largest gold producer spent $9bn buying peer company, Placer Dome, only for its own market capitalisation to since fall to $7bn.

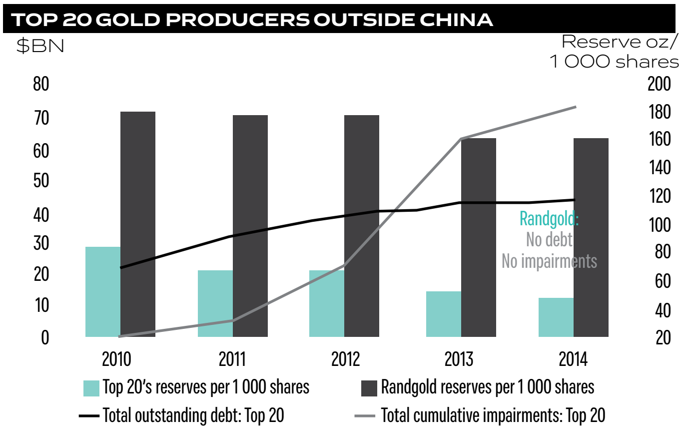
As for the gold industry, Bristow is less than optimistic. He sees further balance sheet stress from companies that overspent, or spent unwisely when the gold price touched $1 800/oz in 2011.

Now 56 years old, Bristow has no plans of retirement but adds he'd prefer not to "outstay his welcome". It's unlikely that will happen soon if his comments about "living to work" are true.

"There's a theory out there that you put your family first, play with the kids and have dinner with your wife," said Bristow. "But that's what you do after work. When you run a big company, you get up early and you work for your money." ■

editorial@finweek.co.za

TOP 20 GOLD PRODUCERS OUTSIDE CHINA



SOURCE: Randgold Resources

market place

Don't miss: The *finweek* Money Matters show every Friday at 1PM on CNBC Africa, channel 410. Every week, we talk to experts about the next issue's top stories.

FUND IN FOCUS: MI-PLAN IP GLOBAL MACRO FUND — By Jaco Visser

Banking on companies with strong brands and disruptive business models

The MI-PLAN IP Global Macro Fund, managed by Vunani Fund Managers, is rated the top performer over 12 months in its class by Morningstar Research. The fund is fully invested in offshore equities with a cash buffer. The fund manager, Tony Bell, picks stocks and allocates funds based on the global macroeconomic outlook.

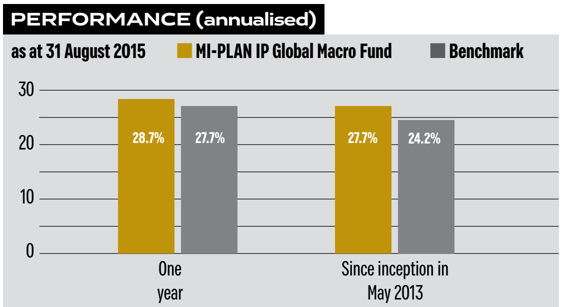
FUND INFORMATION

Benchmark:	MSCI World Index – 80%; US$ Cash – 15%; STeFI cash – 5%
Minimum lump sum/ subsequent investment:	R5 000 lump sum or R500/month
Fund manager:	Tony Bell
Total Expense Ratio (TER):	0.98% (retail)
Fund size:	R364m
Contact details:	clientservices@ipmc.co.za or 021 671 1650

PORTFOLIO COMPOSITION

as at 31 August 2015:		% of fund
1	Amazon.com Inc.	4.6%
2	Nike Inc.	4.5%
3	Starbucks	3.7%
4	Visa Inc.	3.5%
5	Novavax Inc.	3.3%
6	Yum! Brands Inc.	3.2%
7	Inditex US	3.1%
8	Google Inc.	3.1%
9	Novartis	3%
10	Apple Inc.	3%
	TOTAL	**35%**

PERFORMANCE (annualised)



Fund manager insights

In an environment of structurally low interest rates, the fund is looking for companies with earning and pricing power, says Tony Bell, fund manager and chief investment officer at Vunani Fund Managers. "A lot of companies are struggling to maintain earnings power in this sort of environment because they've got to compromise on product or price," he says. Thus, the fund chooses to invest in companies with so-called "new-world brands" that invest in research and development and launch new products regularly, Bell explains.

Holdings include Google, Amazon and Apple, companies that brought disruptive business models to the world and market them aggressively. Bell is also looking for companies with global footprints that mainly operate out of the US.

"The Fed has positioned the US very well in relation to the eurozone and Japan," says Bell. The Fed pulled the US economy out of contraction faster than the European Central Bank and Bank of Japan did in their jurisdictions. The US, with its more flexible labour market, was able to expand company profit margins much faster, Bell explains. "That has combined quite nicely into solid output of those companies and market," he says. Stronger consumer spending in the US, and the Fed's low-interest rate policy are pushing companies such as Nike, Starbucks, Visa and Apple.

The fund has "studiously" avoided stocks with a "negative macro story" and has no exposure to

> The fund chooses to invest in companies with so-called "new-world brands" that invest in research and development.

Why *finweek* would consider adding it

The fund is invested in some strong brand-driven companies such as Apple, Starbucks, Visa and Yum! Brands, which is the owner of KFC, among others. These companies have been pushing hard into the emerging markets over the past decade or two and didn't leave their home market, the US, behind. As American consumer confidence keeps on rising amid net job creation, low interest rates and low energy costs, these brands will grow both sales and profits. The fund also gives the investor exposure to offshore stocks amid local currency weakness, acting as a rand hedge. With no exposure to resource stocks, which got a beating in the market recently due to China's economic slowdown, the fund is a good bet on the global consumer. ■

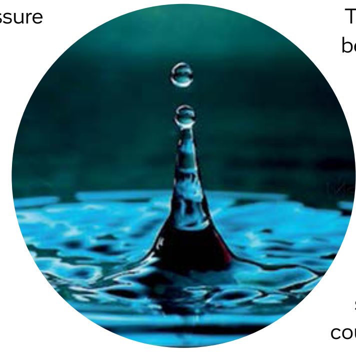
editorial@finweek.co.za

ROLFES

BUY SELL HOLD

By Simon Brown

Poised for growth



Rolfes has been under pressure after trading above R6 in 2013, but recently it has started to move higher. While it offers risk, it has great potential for a bottom draw, long-term investment.

The last set of results saw previous years' numbers restated and that boosted this year's results, but like-for-like results saw HEPS around 5% higher.

The company operates in the chemical space with my particular interest being its water and agriculture businesses. These are both huge areas of growth potential, as we're always going to need to eat.

The Bragan acquisition has been confirmed and should add significantly to earnings and help improve a strained balance sheet that has admittedly been slowly improving.

Keep in mind that this only accounts for part of the year, and by removing some one-off costs, we could see HEPS of around 50c putting it at a forward P/E of around 7 times.

There is risk in the margins, which have been under pressure, while acquisitions have contributed to revenue but not HEPS. However, management is focusing on these issues. ■

Last trade ideas

- SELL Phumelela
- SELL SABMiller
- BUY iShares US Real Estate (ETF)
- BUY The Walt Disney Company

TSOGO SUN HOLDINGS

BUY SELL HOLD

By Moxima Gama

Looking quite bright

Total hotel room revenue in South Africa is expected to grow at a compound annual growth rate of 8.1% a year between 2015 and 2019, according to the latest PwC *Hospitality Outlook.*

Overall, the outlook is positive, which bodes well for companies like Tsogo Sun, which has a portfolio of over 90 hotels catering for various budget segments.

Its hotel brands include Southern Sun, Garden Court, Stayeasy and Sun1.

In the year to end March, the group saw a slight decline in occupancy rates and warned that trading is expected to remain under pressure due to the ongoing macro-economic conditions and weak consumer sentiment.

It reported a 4% decline in earnings per share to R1.65. Hotels accounted for about 27% of overall revenue.

The results were reported before government's controversial new visa regulations were implemented in May. A number of institutions, including Statistics SA, have reported that the regulations – which require children to travel with unabridged birth certificates and for people to apply in person for visas abroad – have led to a decline in visitor numbers, particularly from Asia.

The major money-spinner for Tsogo is its gaming assets, which include Montecasino, Gold Reef City and Silverstar in Gauteng, and Mykonos in the Western Cape.

In the year to end March, gaming accounted for 73% of revenue. A challenge is to continue growing this part of the business, as acquisitions will prove to be difficult due to Tsogo's dominant position in the market.

In June, the Competition Commission blocked its attempt to buy 40% of Grand West casino in the Western Cape from Sun International, leading to Tsogo and rival Sun International canning the deal.

Hotels accounted for about **27%** of overall revenue.

Tsogo Sun has been stagnant for the better part of the year. That's why an appreciation above R25.30/share could mean it's ending its medium-term consolidation and is now attracting new buyers. Trade for the next two weeks will determine the short-term tone. But continued upside above R25.30/share would be a good entry point, targeting the R30/share levels – a fair trailing stop-loss would be advised. ■

editorial@finweek.co.za

Last trade ideas

- BUY Brait SE
- BUY Curro Holdings
- SELL Netcare
- BUY Telkom

By Moxima Gama

CLICKS GROUP LIMITED

Impressive work in all aspects

In an economy where retailers are keeping future expectations in check due to low consumer confidence levels, the Clicks Group has seen a jump in share price of 48.4% over the past year.

South African consumer confidence is at levels last seen during the 2008/09 recession, according to the latest FNB/BER Consumer Confidence Index (CCI), released earlier in October.

With most consumers believing that the country's economic prospects will deteriorate further over the next year, the outlook for retailers is subdued. It is therefore even more remarkable that Clicks Group, which is mainly focused on South Africa, has seen its shares jump 48.4% over the past year, comfortably outperforming the JSE's Food and Drug Retailers Index, which has increased 29% over the same period, according to INET BFA data. The Clicks Group's brands include Clicks, Musica and The Body Shop, and it operates a network of 632 stores in Southern Africa, with Clicks making up the bulk of the group.

Clicks, which contributed more than 60% of overall group revenue of R10.6bn in the six months to end February, has the largest retail pharmacy chain in the country with 339 in-store dispensaries. Its United Pharmaceuticals Distributors (UPD) business, SA's leading full-range pharmaceutical wholesaler, saw its turnover grow by a massive 20.7% over the same period to R4.8bn. The main focus area is SA, where the township market has become critical in fuelling growth. Rather than growing its African footprint outside SA, as many of its rivals are doing, Clicks is largely focusing on opening more stores in small and convenience shopping centres.

Another competitive advantage is its loyalty programme, which boasts 4.7m active club card members and accounts for three-quarters of total sales.

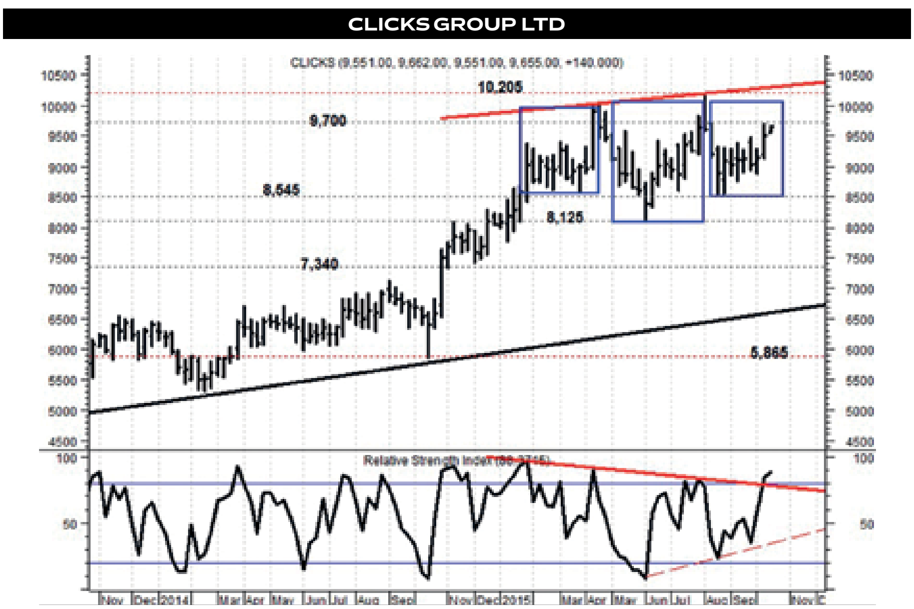
The group has also benefitted from its franchise agreement with The Body Shop, which extends until 2020. Although it contributes only about 0.8% to overall group revenue, The Body Shop grew revenue 12.2% in six months to end February.

52-week range:	R58.67 - R102.03
Price/earnings ratio:	26.22
1-year total return:	+49.81
Market capitalisation:	R23.6bn
Earnings per share:	R3.66
Dividend yield:	2.11%
Average volume over 30 days:	998 945

SOURCE: Bloomberg.com

Its Musica division, though still profitable, lagged as the CD and DVD market is declining. However, Musica's decision to diversify into accessories and gaming could benefit it in the long run – the group's revenue rose by 2.4% to R506m in the six months to end February.

Clicks believes it is well-positioned for future growth despite the challenging consumer environment, which is expected to remain unchanged. Its UPD business, which grew market share from 25.4% to 26.2% in the six months to end February, is expected to continue to outperform as the business grows scale and extracts efficiencies.



SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: Clicks has been consolidating for the past 10 months, potentially forming an inverted head-and-shoulders pattern. Because it's forming the final shoulder, further volatility may be on the cards in the near term. Upside above R105/share should appreciate the share price further to the R125.80/share target mark in the short term (1 to 6 months).

Alternative scenario: The bullish continuation pattern would be negated below R81.25/share, and Clicks could retrace further to either the R73.40/share level or its major support trendline (black bold trendline). ■

editorial@finweek.co.za

Moxima Gama has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

SIBANYE GOLD

Winning with Aquarius

Neal Froneman of Sibanye Gold continues his march towards being a platinum miner rather than a gold miner with the proposed takeover of Aquarius Platinum. This gives Sibanye location synergies as the company reaches critical mass in the Rustenburg platinum belt. Furthermore, this is another really well-priced deal. The other deal with Anglo American Platinum has an earnout clause that sees the price go up if it generates free cash, while an indicative R2.66/share for Aquarius is a really good deal for Sibanye. It's a quarter below where the stock was trading a year ago, but admittedly also more than double the low from July. The stated net asset value (NAV) for Aquarius at the last set of results for the year ending June 2015 was R2.88. The surprise is that the Aquarius board is happy with the deal and it almost seems as if they're just throwing in the towel. If I were an Aquarius shareholder, I would rather hold onto my shares and try for a higher price but it seems very likely the deal will go ahead.

The stated net asset value (NAV) for Aquarius at the last set of results for the year ending June 2015 was

R2.88.

RICHEMONT

Rewarding investors' patience

Finally, Richemont* seems to be on the move again as it trades at a new all-time high after some two years stuck around the R100 level. Shares will often do this as they spend time range-bound going nowhere. Impatient investors will fret that other stocks are moving and theirs aren't, but as long as you're holding quality stocks they will start moving again sooner or later. And while you're waiting, earnings are increasing, which drives valuations higher. This will always eventually see the stock moving higher.

BEAR MARKET

Is it inching closer?

Another likely listing is Trellidor and here I wonder why the current owners are essentially exiting the business as they sell much of their stake. If the prospects are any good, why sell? If we consider what Walco, Balwin and Sygnia have been up to, we're experiencing a mini listing boom, which is an important indication. Every bear market feeds on a listing boom and, aside from property, we haven't really witnessed such a boom on the JSE. But we're certainly starting to see one now. I stress here that I'm not saying we're now immediately heading for a bear market, but coupled with a prolonged bull market; massive new listings; oversubscriptions (the Sygnia placement was 19.8 times oversubscribed) and high valuations, these listings indicate that we're closer to the end of the bull market than the start. The response should be to behave as always: carry on holding quality stocks and don't worry about what may be happening in the short term.

PROPERTY SECTOR

New listings not thrilling

The spate of new listings continues with two property stocks coming to market, namely Capital and Regional, and International Hotel Group. Both are secondary listings on the JSE and neither excites me as an investor. Capital and Regional seem to be mostly second-tier locations in the UK, so the earnings would be in pounds, but the locations are not exciting. International Hotel Group is an interesting concept as it focuses on mid-tier hotels targeting cash returns of around 7% a year and a portfolio of £200m in three years – neither are particularly thrilling.

International Hotel Group is an interesting concept as it focuses on mid-tier hotels targeting cash returns of around

7%

a year and a portfolio of

£200m

in three years – neither are particularly thrilling.

ZEDER

Not a favourite

Details in the Zeder results are again an indication of why I don't like the company. With most of its NAV being in listed Pioneer, the management fee paid to PSG comes in at R162m, while profit before tax and finance costs is only R147m. Now, sure, it has representation on the Pioneer board and a fee proposed by shareholders, but really PSG is earning fees for little effort at the cost of Zeder shareholders. ■

editorial@finweek.co.za

**The writer owns shares in Richemont.*

By Simon Brown

INVESTING

Don't let that spike fool you

Often, investors get excited when a faltering stock suddenly gets more expensive. They then rush to buy it. But this knee-jerk response to the excitement can end quite badly.

Volatility is the size and speed of price movements we see on markets. Wildly volatile stocks will move by large percentages, and such moves are often considered a friend of both the trader and investor.

Traders like wild swings as they can make a profit faster, especially when they are using derivatives for gearing. But volatility actually often hurts traders as a large move can be against their position, causing them to stop out at repeated large losses.

The brief spike

Investors like such jumps as downswings give them an opportunity to buy the stocks they like for less. But the problem for investors is when the volatility swings high and they tend to have knee-jerk responses. A sudden upward spike can get investors all excited.

Thinking that the downtrend is over, they jump, without careful consideration, to buy the stock. However, this is only a brief upward spike in the price while the share is actually moving lower, so the investor ends up owning a share that is on a downtrend.

The short squeeze

This is partly due to a short squeeze: Under the assumption that a stock is falling, it's likely there will be a number of people that short the stock – i.e. sell a stock they don't own, or have borrowed, at a higher price, with the belief the price will decline. The idea is that they'll buy it back at the lower price, making a profit.

But a sudden move higher means they have to buy the stock to close the position. Now not only are long traders buying along with investors, but the short traders are also buying in order to exit and avoid losses. This is called a short squeeze and can cause a share price to rocket, making it look like the 'real deal'.

An example would be Lonmin's 27% upward move on 7 October. After a day or three, the short traders are mostly flushed out and suddenly buyers are missing, and the stock moves lower again. This brings short traders back into the markets, where they are now selling the stock, causing it to move lower again.

Is it really the bottom?

The investor sees a sudden large spike in the price of a stock they have been watching. The stock has been moving lower for a long time and suddenly it starts moving higher, adding maybe 20% or more in double-quick time.

The investor worries about missing out on buying the bottom and jumps in. But was that really the bottom? In truth we don't know. But the investor has been pulled into what may or may not be the bottom. If it isn't, they could be in for some serious pain as the stock moves lower, potentially costing all the recent gains and more.

The issue is that the investor is scared of missing out and ignores the risk. The investor wants to catch the stock as close to the bottom as possible so that they can make as much money as possible. But by getting it wrong, they end up losing a lot more than they ever anticipated.

Instead, the investor should wait for the reversal to confirm itself and buy when they have greater certainty. Sure, they'll miss out on a lot of the initial profits, but they'll have a much lower risk and there will still be plenty of profits to be made. I call this the 'bit in the middle'.

Forget tops and bottoms, aim to catch the bit in the middle; it offers plenty of profit with much lower risk. If Anglo has bottomed and is moving higher, the eventual profit is likely to be measured in hundreds of percent. Missing the first 50% or so does dent the return a bit, but the investor will still get a great return. ■

editorial@finweek.co.za

3

short trades by legendary investor and philanthropist George Soros

On **16 September 1992,** Soros made an estimated $1bn profit from short-selling the pound after it became clear that the Bank of England wouldn't be able to sustain the currency's artificially high levels. The deal forced the bank to pull out of the European Exchange Rate Mechanism and earned Soros the nickname as the "man who broke the Bank of England".

For two days in **May 1997,** currency speculators, including Soros, attacked the Thai baht. The baht was still pegged to a basket of currencies with the US dollar as its main component. Thailand initially tried to defend the baht, but was forced to give up the fixed rate in July, and asked the International Monetary Fund for a bailout. The baht's collapse was the main trigger of the Asian financial crisis.

In **2013,** Soros started shorting the Japanese yen. At the time, Prime Minister Shinzo Abe encouraged intense monetary easing in an attempt to jump-start the Japanese economy. Family firm Soros Fund Management reportedly made nearly $1bn in profits between December 2013 and February 2014 as the yen depreciated against the US dollar.

SOURCES: *Investopedia, Forbes, Bloomberg*

By Schalk Louw

ASSESSING RISK

Relatively speaking

Relativity can be used to tell us more about where we find ourselves market-wise. It can also tell us how expensive (or cheap) a particular share, currency, commodity, bond or sector is, relative to another.

Studies have shown that more than 90% of long-term investment results are achieved through proper asset allocation, while only 10% could be attributed to good market timing in different markets and sectors.

In a balanced portfolio, investments can be divided into five main groups: money market instruments, domestic bonds, property shares, domestic shares and offshore investments. (For the sake of convenience, offshore investments in my analysis consist of a 60% share in the Global Equity Index and a 40% share in the Global Government Bond Index).

Studies have shown that more than **90%** of long-term investment results are achieved through proper asset allocation.

Diversification remains investors' best defence against risk, which is why it is so important not to focus on only one of these five groups.

All five of the abovementioned asset classes have historical returns. It is by comparing these returns that we can get an indication of how cheap or expensive they are relative to each other.

Let's take shares as an example. We can see that historically, the average earnings yield over the past 15 years traded at 1 (100%) times relative compared to average earnings on the remaining four asset classes (money market instruments, property shares, domestic bonds and offshore investments).

Most investors' portfolios would have developed an overweight position in offshore investments over the past 18 months due to the massive weakening of the rand.

At a current ratio of 83%, it clearly shows that returns on shares still aren't cheap relative to the other asset classes. On the contrary, this "relative" ratio shows that it is currently trading below the one standard deviation mark. This doesn't mean that shares should be excluded from your personal portfolio altogether, but rather that you should move your share exposure to an underweight position.

This repositioning applies especially to those with a lower risk profile.

The money market has managed to shed its strong 'underweight' status over the past few months and now appears to be reasonably priced along with domestic bonds and offshore investments (see graph bottom left).

Because this model mainly focuses on relative returns, I have to warn readers to be extremely careful when it comes to offshore investments, simply because the model doesn't focus too much on foreign exchange rates. Most investors' portfolios would have developed an overweight position in offshore investments over the past 18 months due to the massive weakening of the rand. Repositioning this asset class to carry a more moderate weight in your portfolio may mean that you would have to cut back.

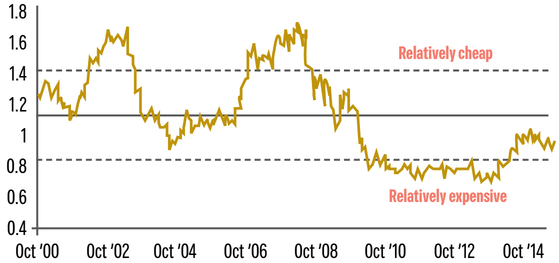
Interestingly enough, the only domestic investment class that currently offers true value relative to the other asset classes is not only the star of 2015, but the star of the decade: property shares (see graph bottom right). On average, this sector's historical earnings yield equalled that of domestic shares, by trading at 100% (1 times) of the average of the remaining four asset classes. At its current 1.32 times, this asset class certainly justifies an overweight position in your personal portfolio according to the relativity model (as long as it falls within the limits of your personal risk profile).

In conclusion, it is needless to say that the current investment environment certainly doesn't look as attractive or as easy, relative to 12 months ago. However, it is relatively easy to manage your own portfolio, provided that you firstly pay attention to proper diversification and secondly to overweight positions in assets that will offer you more value relative to others. ■

editorial@finweek.co.za

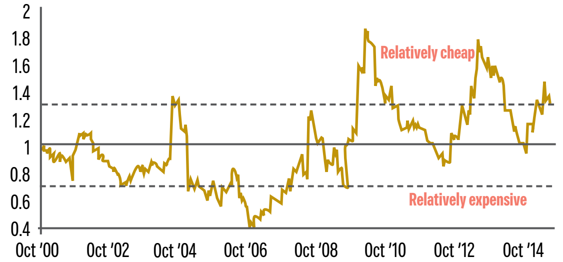
Schalk Louw is a portfolio manager at PSG Wealth.

SA MONEY MARKET RATES RELATIVE TO OTHER ASSET CLASSES



SOURCE: PSG Old Oak & INET BFA

SA PROPERTY SHARE INDEX RELATIVE TO OTHER ASSET CLASSES



SOURCE: PSG Old Oak & INET BFA

By Iwan Swiegers

BALWIN PROPERTIES

An exciting new listing with an impressive pipeline

Since it was founded by Stephen Brookes in 1996, Balwin Properties has successfully developed and sold 71 residential estates comprised of over 13 500 residential units.

The company has a very successful build-to-sell model that focuses on building and selling residential units in the price range of R600 000 to R1.7m in its secure estates.

Balwin's proven model has the ability to deliver a superior offering through a strong recognised brand, the needed market knowledge, economies of scale and its secured development pipeline. It has a pipeline of approximately 17 028 residential units and 21 large-scale residential estates, which are planned to be constructed over the next eight years. Besides the core income originating from the build-to-sell model of the business, the company has also started the process of building a rental book that is expected to grow to approximately 2 000 to 3 000 units by 2020 (an approximate value of R2bn to R3bn). This will act as an additional revenue stream and also diversify the risk of the company.

On 9 October, management released the following positive results of the offer:

Balwin will receive R713m to settle its debt facilities and provide the company with added balance sheet capacity for future land acquisitions and development activities; and R1.05bn to be received by way of a secondary placement by Balwin's existing shareholders.

The total amount of capital raised was increased to R1.76bn, after being significantly oversubscribed, which is another indication of the strong demand. The listing price for the private placement is R9.88/share, equivalent to a forward price-to-earnings ratio (P/E) to 28 February 2016 of 8.5 times. The multiple seems very attractive when compared to Calgro M3 Holdings (another housing development group) ratio which is currently trading at 18.74 times.

A lot of the short-term risk has been eliminated as Balwin's target sales for the 2016 financial year are already around 91% secured and target sales for the 2017 financial year are around 45% secured. Something that really caught my attention is the fact that the company is currently negotiating the acquisition of an additional land parcel in Kyalami, on which around 15 000 additional sectional-title residential units may be developed. Should this acquisition be successful, it would roughly double Balwin's existing secured pipeline. Another potential contributor that has been excluded from the current pipeline is the fact that the company is also planning to expand into Durban and Nelspruit over the next two years.

Even through a difficult economic environment, we believe Balwin's share price has the ability to grow more than 20% over the next six to 12 months.

Balwin listing was scheduled for 15 October. ■

editorial@finweek.co.za

***Iwan Swiegers** is director at Capilis Asset Managers.*

Developments for sale

De Velde
Location: Somerset West.
Number of units: 1 200

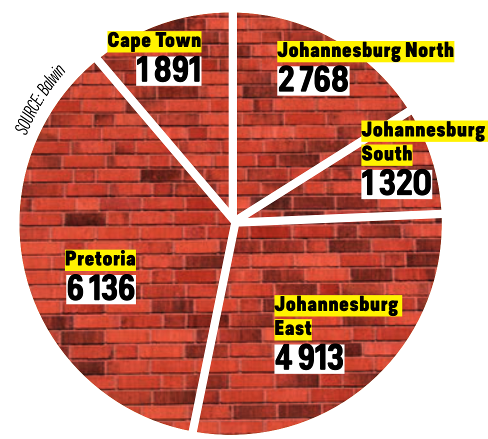
The Cambridge
Location: Bryanston
Number of units: 440

Kyalami Hills
Location: Midrand
Number of units: 542

***SOURCE:** www.balwin.co.za*

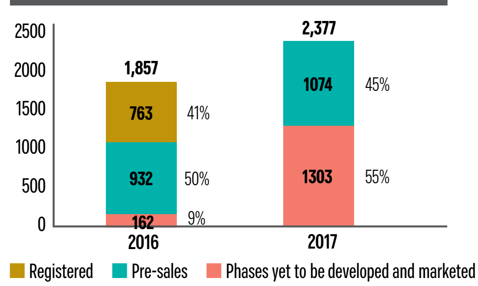
It has a pipeline of approximately 17 028 residential units and 21 large-scale residential estates.

BALWIN PIPELINE
Number of residential units*



**The pipeline represents secured land parcels only. As such, Balwin's planned expansion into the Durban and Nelspruit areas has not been included.*

CURRENT SALES/PRE-SALES PROFILE**



***This graphic shows that Balwin's target sales for the financial year ended 28 February 2016 are already around 91% secured. Similarly, target sales for the financial year ending 28 February 2017 are around 45% secured.*

finweek

COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

OCTOBER 2015

FINANCIAL EDUCATION

CHANGING INVESTOR BEHAVIOUR

Inside


WOULD YOU
TRUST A NEEDLE
TO GET YOU
THROUGH THE
KAROO?
You're on the dusty, open road. A tattered sign outside a petrol station reads: 240kms till next fill-up point. You glance down at your petrol gauge. You don't stop. You keep going and think about that little reassuring needle, comforted in the knowledge that the things we trust most, never stop working to earn it.
To find out how Coronation can earn your trust, speak to your financial advisor or visit www.coronation.com
CORONATION
FUND MANAGERS
TRUST IS EARNED
Coronation Asset Management (Pty) Ltd is an authorised financial services provider. Trust is Earned™.
NET#WORK BBDO 8019616/FG/E

By Vanessa Bell

INTRODUCTION

Assessing our financial literacy

Proper financial education provides people with an understanding of how to achieve favourable financial outcomes. This edition will explore the many challenges, opportunities and excuses that are prevalent in South Africa.

The shock headline statistic is that interventions to improve financial literacy have a mere 0.1% impact on changing financial behaviour and consequently a negligible effect on achieving better financial outcomes.

The funding of financial education initiatives is the easy part. Under the Financial Sector Code, financial services firms may apply 0.4% of their net profit after tax to financial education for scorecard points and in terms of the revised scorecard, 0.5% expenditure has the reward of a bonus point. And of course let's not forget the variety of self-motivated incentives driving corporate expenditure on financial literacy initiatives.

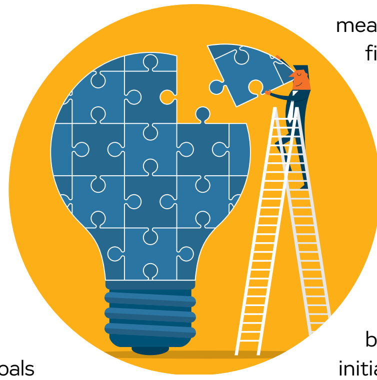
So if money is not the obstacle, what is? Getting it right is. To begin with, the concept of financial literacy is difficult because of the lack of a common definition. Opinions vary greatly as to whether the definition should include behaviour and attitudes as well as knowledge. The lack of a common definition has the knock-on effect of there being a number of divergent and inconsistent methods of measuring financial literacy. The importance of measurement should not be underestimated. It matters because, if the many millions of rand spent on financial education each year don't deliver, then it's money that might as well be flushed down the proverbial toilet.

The good news is that there is now a whole lot of guidance out there. And all the right steps in the right direction have been taken towards a consistent measurement framework. There has been significant development in research on a global level such as the Organisation for Economic Cooperation and Development's (OECD's) multidimensional International Network on Financial Education (INFE), which provides a publicly available survey database of financial literacy information. Locally, our Financial Services Board (FSB) has been doing significant work since 2010 when it commissioned a pilot study on financial literacy as part of its Consumer Education Programme. The stated goals are to eliminate irresponsible financial behaviour and improve the quality of life for all South Africans – regardless of class, race or creed – by increasing the levels of financial understanding.

Locally, our FSB has being doing significant work since 2010 when it commissioned a pilot study on financial literacy as part of its Consumer Education Programme.

A hard task given the premise that financial literacy translates into the right behaviours has been disproved by research conducted by the Word Bank. A financial competency framework applying the same principles introduced by the OECD has now been developed by the FSB with a four-pillar approach of assessing an individual's financial skill set around financial control, financial planning, financial product choice, financial knowledge and understanding.

It's also been recognised that too often companies plough resources into



measuring the success of financial education projects by attempting to prove the project's impact at the inappropriate time. Whereas, thanks to the work that Genesis Analytics has been doing by identifying best practices and building on the benchmarks produced by the OECD and FSB initiatives, there is a methodology and framework within which project evaluations can be conducted at other and earlier stages using different criteria such as relevance, effectiveness, efficiency and sustainability, in addition to an impact evaluation. This makes sense if one considers that impact is really only truly tangible when an individuals' financial behaviour has had a 20- to 30-year course to run – which invariably is too long to wait to assess. Not only does this methodology offer a holistic approach, but it also represents a platform that allows everyone to work off the same page. A quantifiable approach under a consistent framework is necessary if there is to be any hope of improving the 0.1% statistic. Simply put, 'you can't manage what you can't measure'.

This edition's articles will explore the many challenges and opportunities the country must grapple with to become financially fit in future. ■

Vanessa Bell is a director of Jonathan Mort Inc, a firm of specialist pension fund attorneys.

PLEASE SEND ANY FEEDBACK AND SUGGESTIONS TO CABOTA@AFORBES.CO.ZA.

Stock images by Gallo Images/ Getty Images/ Sorbetto

By Dr Michael Streatfield

ASSESSING EDUCATION

We don’t need no education

Financial education is not in a good place. Studies have shown that consumers around the globe are pretty clueless when it comes to answering basic financial questions. Why is financial literacy so poor and what can we do about it?

We don’t need no education
We don’t need no thought control
No dark sarcasm in the classroom
Teachers leave them kids alone
Hey! Teachers! Leave them kids alone!
All in all it’s just another brick in the wall.
All in all you’re just another brick in the wall.
– Pink Floyd

How dire is the state of financial education? Think of a low number and subtract… wait a minute… that may be beyond your ability considering the horrendous statistics on financial literacy.

In a 2013 working paper, researchers Annamaria Lusardi and Olivia Mitchell asked three basic questions on financial literacy around the world (see box). The questions centre on understanding compounding of interest, inflation, and diversification. In the US, only 35% of people get all three right, with 10% getting none correct. But it is not just the Americans; other jurisdictions fare equally badly, as can be seen in the graph.

Many other studies echo the broad weakness of financial knowledge – such as the incredible 14% of American students who do not even know that they have student debt, according to research by the Bookings Institute. (Grim as US student debt sticks like glue – you cannot default on it.)

Hey! Teachers!

Individuals are shouldering more investment responsibility in a defined contribution world, and nations have overpromised on social security, so this is a political hot potato. To protect consumers, governments have responded with the “solution” of education.

But educational interventions are not working. (A meta study of financial literacy programmes found interventions had a negligible impact – explaining at best 0.1% change in variance in behaviours, according to an article published in *Management Science* by Daniel Fernandes, John Lynch Jr and Richard Netemeyer in 2014.)

A 2013 OECD study on financial literacy concludes this failure is rooted in behavioural finance. Constrained by our use of heuristics means knowledge is insufficient. I believe if investment professionals fall victim to behavioural biases, then it is asking too much of the public to dodge the predictable potholes of poor behaviour. Indeed, academic Lauren E Willis argues the pursuit is flawed – we do not expect people to be their own doctor or lawyer, so why expect them to be a financial adviser?

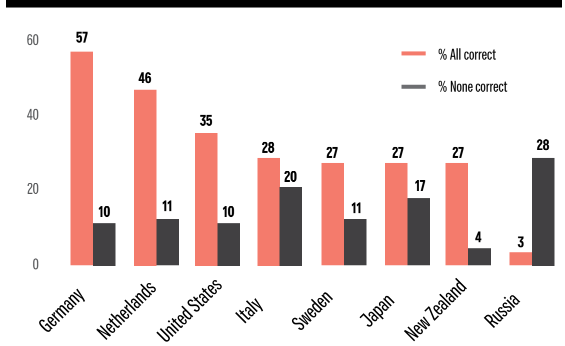
We do not expect people to be their own doctor or lawyer, so why expect them to be a financial adviser?

Furthering the tragedy is the fact that poor financial literacy strikes the more financially vulnerable, such as lower income groups, the less educated, young and old, and those in rural areas. Secondly, those with a lower financial literacy can end up shouldering more of the costs of financial services. For example, in the use of credit cards, those less knowledgeable pay the lion’s share of the costs (from late payments, cash advances and so on). Lusardi and Mitchell also found that women do not only answer fewer questions correctly, but are more likely to admit that they “do not know”. Interventions need to be targeted to support these different groups.

Leave the kids alone?

But do we need education if we can trick people into doing the right things? Behavioural finance practitioners suggest good product design and judicious defaults can overcome our faults. For example, efforts like the SMART (Save More Tomorrow) programme developed by behavioural economists Richard Thaler and Shlomo Benartzi, which boosts pensions by diverting contributions from future salary increases so savers do not suffer a drop in take-home pay.

FINANCIAL LITERACY SCORES WORLDWIDE



SOURCE: Lusardi, Annamaria and Olivia S. Mitchell, The Economic Importance of Financial Literacy: Theory and Evidence, NBER Working Paper No. 18952, April 2013.

3 BASIC QUESTIONS ON FINANCIAL LITERACY THAT LUSARDI AND MITCHELL ASKED:

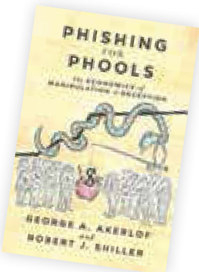
1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow? [More than $102, exactly $102, less than $102? Do not know, refuse to answer.]

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy? [More than, exactly the same as, or less than today with the money in this account? Do not know; refuse to answer.]

3. Do you think that the following statement is true or false? ‘Buying a single company stock usually provides a safer return than a unit trust.’ [Do not know; refuse to answer.]

We don't need no thought control

It may be nice to be "nudged", but Thaler, together with Cass Sunstein and John Balz, warns "choice architects do not always have the best interests of the people they are influencing in mind". In addition, detractors say this is not 'best advice' as truly financially literate people would first pay off higher yielding debt, like credit card debt, before marginally increasing pension contributions. I say something is better than nothing. Lead us not into temptation of consumption… with the proviso 'buyer beware', because of market forces pushing us to an equilibrium that takes advantage of our weaknesses.



As stated by George Akerlof and Robert Shiller in their book *Phishing for Phools,* "There are two ways to make money. The first is the honest way: give customers something they value at $1; produce it for less. But another way is to give customers false information or induce them to reach a false conclusion: so they think that what they are getting for $1 is worth that; even though it is actually worth less."

So faced with poor returns on education, product design that can only go so far, and with schemers to dodge, can we turn to new innovations to independently advise?

MY TIPS ON HOW TO GET YOUR FINANCIAL AFFAIRS IN ORDER:

Don't say the dog ate my homework: Stop making excuses. Choose an anniversary like Easter or your birthday to tackle your financial affairs. Get a financial coach or accountability partner if you need motivation.

Do your sums: Mathematics should not be ignored in favour of an education in financial literacy.

Exam cramming works: Financial knowledge has a decaying payoff, with people only recalling learnings over 15-20 months. So skill up and be fresh when a change in life circumstances (new kid, new job) or inheritance prompts you to act.

Be smart: Check and choose the opt-ins – auto annual premium increases, reinvesting income, and debit orders – to benefit from behavioural finance design.

Do your homework: You worked hard for your savings. Phishers are looking to scam you. If something looks too good to be true, then it probably is.

Don't be a teacher's pet: People overestimate their financial knowledge, so be humble.

Teach your children: It starts at home. There are solid links between family background and financial literacy.

Extramural activities: Take advantage of free education resources (ideally from independent sources, not conflicted financial providers), especially if you are in a vulnerable group.

Not interested and want to skip classes: Get a fee-based adviser, or investigate robo-adviser services.

All in all you're just another brick in the WALL-E

Ergo, are the robots going to come to the rescue and save us instead?

The rise of the robo-advisers is the seductive idea that algorithms can tirelessly help us with financial planning as benevolent agents – rebalance your portfolio, do tax-motivated selling to maximise your annual allowances, make cost effective allocations, and dividend rebalancing. Silicon Valley disruptors, like automated investment service Wealthfront, promise "Set it and forget it." This technology may certainly aid existing investments, but these, often passive, approaches are untested. In a bear market, trust and hand holding might prove invaluable. McKinsey questions the potential of these automated approaches beyond very simple products. Their vision of the future involves a virtual adviser that uses technology to pool and channel advice. A helpline blending tech and the human touch sounds wonderful, but conflicts of interest are notoriously hard to manage in financial services. Once product provider helplines understand your total financial position, they might recommend switches out of competitor products.

To me, the greatest challenge is the insane level of personalisation a modern financial literacy programme requires. Personalised for risk preferences, your level of education, existing asset portfolio, and future goals. We are conditioned and coloured by the existing path we have taken though financial markets. For example, current millennials in the US are more sceptic of debt than the silver foxes, because they have lived through a housing and student debt crisis. So lesson plans need to adapt over time.

You (and your assets) only live life once. Planning software may show a distribution of futures, but you experience just one of those paths. Uncertainty is the constant, the curriculum ever-changing.

We face a wicked, perhaps unsolvable, problem. While governments wrestle with this dilemma, and incentives remain for providers and 'phishers' to keep the status quo – individuals need to search for their own enlightenment, and learn from the school of life and hard knocks. ■

Dr Michael Streatfield, CFA, is writing in his personal capacity. After completing his doctorate at Oxford University, he returned to Cape Town as a founding partner of the global hedge fund advisory Fortitudine Vincimus Capital.

By Lerato Mahlangu

FINANCIAL LITERACY

Who is responsible?

Financial education, like any other form of education, needs to be priority from a young age. Schools – the most obvious starting point – don't seem to be succeeding when it comes to financial literacy. Who else should be involved?

"Financial education from a young age is key to achieving a more financially resilient society and helping people make the right choices when it comes to things like pension freedom," said Tony Stenning, head of UK retail business at Blackrock in a study that focused on the role of financial education in British schools.

Ten years ago I would have told you that financial education meant the accounting course taught in schools. As a Matric pupil, I thought "The only way I will become rich is to join a stokvel", and the only thing I knew about financial markets was the R/$ exchange rate quoted on the 7:30pm news. Terms like interest rates, inflation, and risk diversification were foreign. I was not alone. An American study in 1997 showed that less than one third of youth have basic knowledge of such things.

A similar study conducted in the Vhembe District of Limpopo sought to determine the correlation between financial literacy and youth entrepreneurship. More than half of the respondents had some idea about interest rates, VAT, National Credit Act, and insolvency, while only a third had little or no knowledge of the stock exchange.

We may perceive the US to be more financially literate, but comparing the Limpopo and USA studies suggests that higher education levels do not necessarily translate into financial literacy.

Government attempts to teach financial education in schools have had little impact. In 1995, the department of education introduced Curriculum 2005 with the aim of providing equal opportunities to all learners in South Africa. The curriculum was later revised in 2004 and renamed Revised National Curriculum Statement for the General Education and Training Band. It was later renamed in 2006 as the National Curriculum Statement for the Further Education and Training Band.

As the old saying goes, "The proof of the pudding is in the eating" – government's attempts have to be measured. In 2008, the students who had been exposed to the curricula from Grade 1 to Matric wrote the National Senior Certificate (NSC) examinations. The results revealed a change in the standard of education since Curriculum 2005 was introduced. The same learners were then tested for tertiary readiness and the tests revealed that they were unfit for tertiary education. The inconsistent school curriculum has contributed to government's failure and has made it difficult to monitor the success or failure of each curriculum.

Schools have not been successful in executing financial education. Programmes that tend to work are around projects – budgeting, going through bank accounts etc. Practical interaction has a much higher retention than a teacher standing in front of a class telling you what an interest rate is. A practical approach is critical, as it gets learners to do the legwork of entrepreneurship. Sadly, as a result of historic socioeconomic inequalities, we find that model C schools are better equipped at transferring this knowledge. But the responsibility should not just lie with government. Parents should also be involved.

Financial institutions play a somewhat trickier role as their attempts can be seen as marketing campaigns.

My choice of bank and savings products was solely influenced by my parents' choice. Not being taught about savings products in school made me rely on my parents' knowledge of financial products. If parents feel that their level of financial education is inadequate, they in turn will not be able to teach their children, according to Margaret Sherraden, Founder's Professor of social work at the University of Missouri-St Louis. Hence there is a high probability that children raised in households where the parents have little or no financial education will receive little financial socialisation. High-income earning parents have more diverse financial domains in which they can interact with their children, compared with those of low-income families. This is a challenge in the South African market, with its high proportion of low-income households.

Parents' involvement has proven to be a success. A study in Germany required parents to give their children pocket money. The children had to draw up a budget and reconcile each week. The problem was that in many households the parents could not afford to provide pocket money. However, the outcomes were positive for those who participated in the study over a period of time.

So whose responsibility is it to introduce financial education?

Government, parents and financial institutions all have a role to play. Government can ensure that learners are exposed to entrepreneurship in schools. This will broaden their perspective and help them base their financial choices not just on what they have been taught at home, but also what they have learnt in school. Government can also ensure that entrepreneurship programmes are localised and relevant, i.e. agricultural and farming related programmes are introduced

in the rural areas. In that way, learners could perhaps be better equipped at applying this knowledge and potentially gain entrepreneurship skills to start businesses. Perhaps introducing these programmes in areas where unemployment rates are high would be a good start.

Financial institutions play a somewhat trickier role as their attempts can be seen as marketing campaigns. On the one hand, they incur costs in developing financial education programmes in schools, but with the aim of creating some sort of loyalty in the learners, as the learners will often only be exposed to what the company offers without considering what other solutions are available in the market. Hence, the learners could make biased decisions later on in life. On the other hand, government cannot do the education on its own and the challenge is that the institutions are needed to augment the classroom-based education.

How do we solve the problem?

The involvement of independent organisations like the Financial Services Board (FSB) would help eliminate these branding and undue influence issues. Unbiased training programmes run in partnership with the FSB and financial institutions in schools would go some way towards resolving these issues. But of all the parties mentioned, government's role in financial education is of utmost importance. While an exorbitant amount of money is spent on campaigns to encourage people to spend more, government has the responsibility to come up with interesting ways to encourage people to save. The introduction of the tax-free savings accounts is one of the ways that government is trying to entice people to save. Hopefully, it will prove to be fruitful. ■

__Lerato Mahlangu__ is an Actuarial Science graduate from the University of Pretoria. She is the president of PowerMani, a campaign to encourage investments and build personal wealth among professionals. She is working towards acquiring an MBA and building her personal brand.

By Andrew Davison

PRACTICAL APPLICATION

Healthy understanding leads to savvy behaviour

Scaring people into behaving 'well' financially is counterproductive. Instead, we should foster a culture of ownership and empowerment.

We hear so often that we don't save enough; make bad financial choices; borrow too much; don't preserve our savings when we change jobs; switch investments at the wrong time, driven by fear and greed; or are underinsured on everything from our golf clubs and jewellery to our own lives – that we actually start to believe it. These messages, intended to scare us into better financial habits, actually end up frightening us into inaction. The daunting tasks of saving for an entire working lifetime, making consistently good investment decisions and avoiding the pitfalls of our own human behaviour – combined with the ingrained awareness that we are actually very bad at this stuff – leads many of us to give up completely before we even start.

In the face of constant negative reinforcement it is unsurprising that people feel incapable of looking after their own financial affairs. Add to that the dizzying array of financial products available and the often unnecessary complexity of many of these products and the result is that many people are neither motivated nor equipped to take control of their own financial destinies. Yet, the reality is that taking control of one's own financial future is the first step on the journey to financial security.

To make a meaningful impact, financial education needs to begin by helping people to take control of their finances, not by scaring them.

No amount of education can make up for failing to take ownership. Achieving financial security is a journey that requires ongoing education, diligence, constant awareness of one's changing circumstances, some healthy restraint and a good dose of patience.

Unfortunately, our education system and the financial services industry have not done enough in the past to empower people to take ownership of their own affairs and have not inculcated in people an ability to set clear objectives and then plan carefully to target those objectives. They have also not simplified the landscape in order to make it easy for the person in the street to feel in conrol of their finances. So what can be done?

Financial education fails to make much difference to behaviour because it is often disjointed or even one-off. It is not practical enough and likely to be forgotten almost as soon as the recipient leaves the education venue. To really understand finances well enough to make good decisions requires more than one or two workshops.

Even people in the financial services industry often fail to make decisions that are any better than those who do not work in that field. A healthy understanding of what it takes to achieve financial security requires a sound basic financial education, but just as importantly, it requires an ongoing investment in knowledge. Training new staff within financial

services firms can take many months and requires ongoing investment in development and training, and that's just to stay abreast of that particular firm's products and solutions. Imagine how difficult it is for an investor to come to grips with the multitude of options and each one's underlying details.

To make a meaningful impact, financial education needs to begin by helping people to take control of their finances, not by scaring them, but by encouraging them to understand the implications of good decisions and of planning ahead and setting goals.

Financial education fails to make much difference to behaviour because it is often disjointed or even one-off.

Education of this nature should then be combined with hands-on needs analysis and financial planning, with the aim of guiding and enabling people to develop their own plans rather than just providing them with a solution. By doing this, the financial services industry will assist people to take ownership of their financial situation.

We live in an age of instant access to significant amounts of information – but also in a world of instant gratification. The challenge is to distil all this information and organise it in a user-friendly way that allows people to easily view the various components of their financial status. Helping them to understand where there are shortfalls and the alternatives available to them to close these gaps, together with a clear illustration of the implications of the various alternatives, both now and in future, will empower them to take ownership of their affairs. In this environment the financial planner becomes a financial guide, merely available to discuss ideas and options and provide technical assistance, allowing the individual to look after their own financial plan.

This is what the financial services industry needs to focus on.

Taking control of our finances does not require us to become financial experts. It requires the desire to be in control; knowing the difference between good and bad habits; and knowing where to find information while simultaneously having easy access to expert guidance when it's needed, and then understanding how to act on this information and guidance. Financial education therefore needs to focus more on encouraging the right attitude and behaviour in relation to an individual's financial journey through life and less on specific products or solutions… and of course less on scare tactics. ■

IN ORDER TO IMPROVE OUTCOMES FOR INDIVIDUALS, THE FINANCIAL SERVICES INDUSTRY NEEDS TO FOCUS ON:

Educate

Educating people on how to take ownership of their financial affairs. This education should begin with our children. Just as inculcating other healthy habits in children will prepare them for adulthood, so too will good financial habits translate into better financial decisions throughout their lifetime. The journey for adults is harder as we need to unlearn bad habits before learning new good ones. The financial services industry can help by showing people how to adopt these good financial habits and how to seek assistance.

Integrate

Combining financial education and financial planning into one solution that allows people to take control of and manage their own affairs, with access to information, guidance and tools to sustain them on the journey. Financial education should in part be about teaching people where to find their financial information, how to make sense of it and when to ask for expert guidance to make decisions. In other words, financial education should teach people how to take control of their finances, not how to become financial gurus.

Simplify

Simplifying the available solutions and products and making them easy to understand and easy to use. It is really difficult to control something you don't understand. The financial services industry should focus on simplifying the way in which people interact with financial solutions so that, ultimately, the education of people can focus on them taking control rather than them understanding the technical detail of the solutions.

__Andrew Davison__ is head of Implemented Consulting at Old Mutual Corporate. He is a Fellow of the Faculty of Actuaries and a member of the Actuarial Society of South Africa, where he also serves on the Investments Committee. He has over 20 years of experience in investments, ranging from investment product development for both life companies and asset managers, to consulting on all aspects of investment strategy to a variety of retirement funds and other institutions including medical aids, trusts and charities.

By Shaun Levitan and Robert C. Merton

RETIREMENT FUNDS

Focus on meaningful information

Don't allow yourself to be fooled by notions of a 'pot of money'.

The current investment practice in South Africa is to provide members of Defined Contribution (DC) plans with the value of their account on a regular basis. The statement provides the member with both the account balance at the beginning and the end of the period, along with the investment return on the member's assets.

This information is clearly important but it is not meaningful. In fact, providing this information might actually be dangerous.

Suppose Lindiwe, aged 55, receives her statement and it reveals an accumulated fund balance of R1m. Lindiwe is thrilled to have R1m in her account. For many years, she has believed that R1m is the target and she believes she is on track for a great retirement.

The reality is that knowing her account balance provides Lindiwe with no insight into her likely standard of living in retirement. She currently has a potentially false sense of comfort over her retirement finances.

Suppose Lindiwe instead received a statement from her retirement fund that revealed the following:

- She has sufficient accumulated savings right now to receive a monthly real income of R6 100 a month increasing annually with inflation when she retires at age 65 for the rest of her life;
- Her future contributions towards retirement savings are likely to result in a further R1 100 (real) a month increasing annually with inflation; and
- She is therefore on track to receive approximately R7 200 a month (in real terms) when she retires and this will increase annually in line with inflation.

These calculations are technical but can easily be done in a transparent manner. Providing this information to an individual changes the statement from referring to a 'pot of money' to that of a stream of income at retirement. It recognises that retirement income is actually the goal because the role of a retirement fund is to maintain our standard of living in retirement.

Only Lindiwe is in a position to decide whether this income of R7 200 will be sufficient. However, she has now been empowered with meaningful information that allows her to answer questions such as whether she should be contributing more, whether she should work longer or whether she should take on more investment risk.

By treating our retirement account in the same way as a bank account, we teach members to focus on the incorrect measure from their earliest interactions with their retirement provision. South Africa has among the lowest preservation rates in the world when members move jobs. This is a symptom of a system that holds out the 'pot of money' to members on an ongoing basis. If the primary focus were on their retirement income, then the desire to access the funds would likely be far lower. At the very least, the implications of accessing funds would be immediately understood.

By treating our retirement account in the same way as a bank account, we teach members to focus on the incorrect measure from their earliest interactions with their retirement provision.

Presenting information to Lindiwe in the way described above did not require a significant education exercise on the part of the trustees. We already think in terms of consumption. It provided her with the information needed to understand her financial situation. The fund credit is clearly a very important piece of information but it is not meaningful.

Before spending millions of rand and hundreds of hours on educating members on financial concepts, we should try to interact with them meaningfully. ■

Shaun Levitan *(on the left above) is an executive director and co-founder of Colourfield Liability Solutions, a business that is exclusively dedicated to delivering liability-driven investment solutions. He is a qualified actuary, has a Master's degree (Actuarial Science) and is a CFA Charterholder.*

Robert C. Merton *is the School of Management Distinguished Professor of Finance at the MIT Sloan School of Management and University Professor Emeritus at Harvard University. Merton received the Alfred Nobel Memorial Prize in Economic Sciences in 1997 for a new method to determine the value of derivatives.*

By Wanita Isaacs

CHANGING BEHAVIOUR

Shifting financial behaviour

Educational campaigns should be tailored according to people's behavioural patterns.

With an overwhelming number of choices facing consumers and a legacy of indiscriminate, and often irresponsible, marketing of financial products, it is encouraging that financial education is getting more attention across the South African financial services industry, in line with global trends.

More time and money are being spent on education initiatives across diverse channels: face-to-face, digital, multimedia, even theatre productions. These initiatives aim to help consumers gain control of their finances and use financial products appropriately. While these are noble objectives, initiatives need to take into account consumers' different needs and contexts, otherwise they are likely to fall flat.

Traditional financial education aimed at effecting behaviour change can be ineffective because:

- The topics are often intimidating and complex.
- Adults are usually not in a learning environment; their inclination to learn theory is therefore low unless the topic is a particular area of interest to them.
- The individuals who most need the intervention are unlikely to be those who find the topic interesting, and at worst, may be defensive and unwilling to learn.
- Education competes for attention and priority against far more engaging marketing messages that often contradict the educational message.

Financial education should be relevant to the consumer's context and readiness to act

Even if a subset of the target audience engages with the financial education provided, a change in behaviour requires more than just understanding; the content and delivery needs to be tailored to the individual's relevant financial stage, as well as to their likely readiness to act. For example, a person might fully understand that too much debt is financially harmful and yet continue to spend on credit.

Using behavioural change models in financial education

Applying a behaviour change model, such as the Transtheoretical Model developed by James Prochaska, Carlo DiClemente and John Norcross, is a useful way to think about how to structure an effective campaign. This model divides a desired behaviour, for example saving for retirement, into five phases:

1. **Pre-contemplation –** not considering starting to save for retirement;
2. **Contemplation –** getting ready to start;
3. **Preparation –** ready to start;
4. **Action –** in the process of starting retirement savings;
5. **Maintenance –** has started, needs to continue.

The educational needs at each of these phases are different. Providing the incorrect type of information at a given phase is ineffective, and could shift the consumer backwards in the process. Success should be measured by the educational intervention moving an individual from one phase to the next.

Pre-contemplation: provide motivation

An individual who has not started thinking about it may be unaware of the necessity of saving for retirement and may be defensive or in denial about their financial choices. There are likely to be other financial pressures and competing priorities.

Applying pressure to start saving for retirement immediately, explaining how to go about it or providing too much detail is unlikely to be effective. An effective campaign should distract the individual from their day-to-day focus, create interest and motivate the individual to start thinking about saving for retirement.

Education should focus on building confidence as opposed to increasing knowledge.

Contemplation phase: show them the steps

An individual in the contemplation phase is likely to know the benefits of saving for retirement but is not ready to do so because of perceived obstacles. These may be financial, such as struggling with cash flow, or mental, for example not knowing how much to save or which investment product to use. These individuals are often not confident or committed to taking action and can get stuck in this thinking or research phase for a long time. Focusing on why to save for retirement is irrelevant, as is applying pressure to start immediately. It is more effective to acknowledge the potential obstacles and provide information or support to counter them. For example, a budget and/or retirement calculator and information explaining the steps to take and the options available, will help these individuals get ready to start saving for retirement.

Preparation phase: inappropriate information can decrease confidence

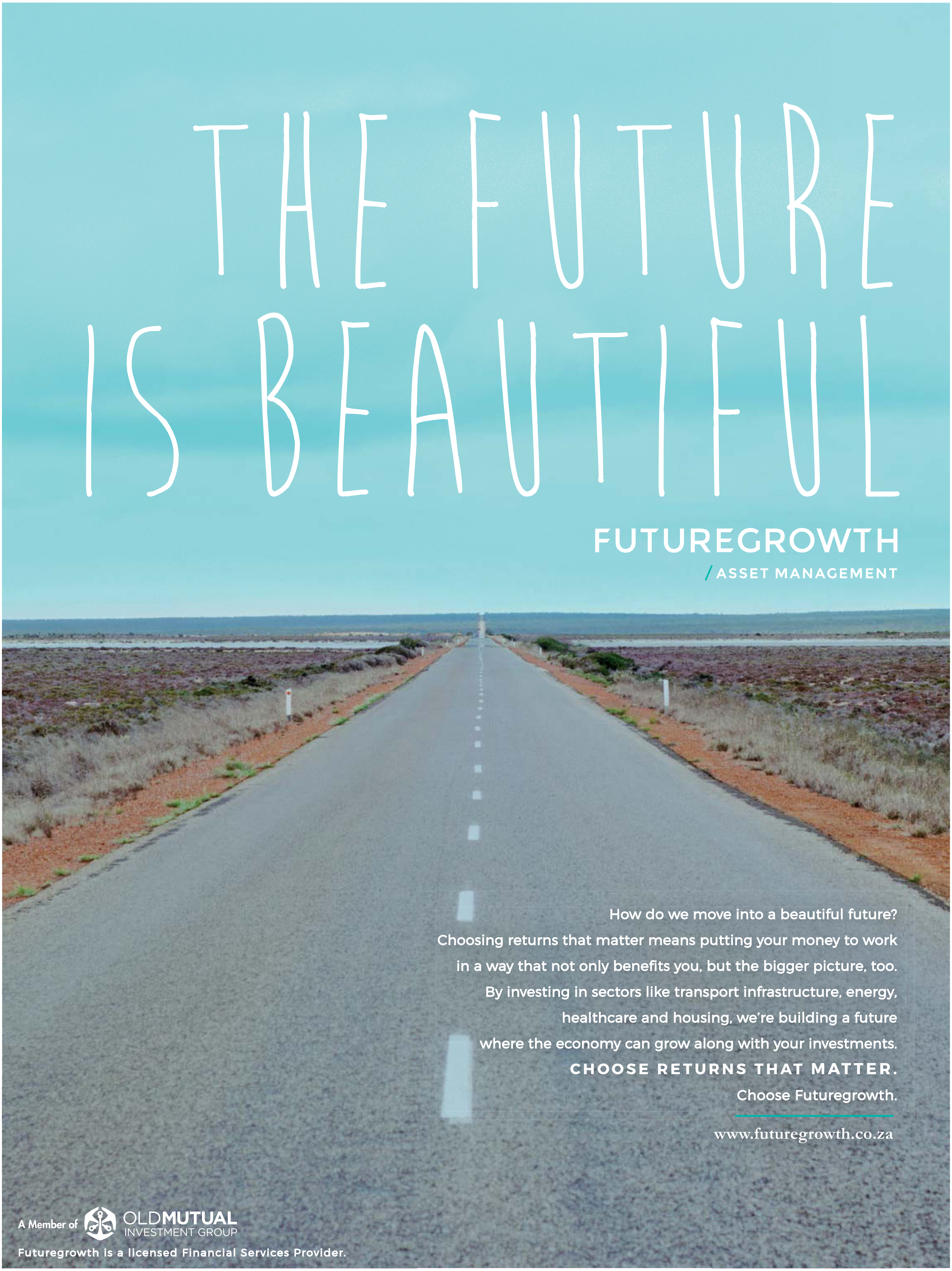
The preparation phase is typically short as once a course of action has been decided on, most people are impatient to get going. These individuals have some degree of confidence in their decision.

Since they are motivated and there is momentum, it is particularly important that education initiatives do not demotivate them. This happens when inappropriate information is provided, for example information on all the options available could result in the individual losing confidence in his/her decision. Clear information on how to go about starting to save for retirement is most appropriate.

Information overload can delay action

An individual in the process of taking action may be susceptible to reverting to an earlier phase if they encounter difficulty during the process, including too much, or too technical, information. Education itself is often irrelevant and counterproductive in this context. The individual is action-orientated and education is likely to either be ignored or distract the individual from taking action. It is more effective to focus on supporting and facilitating the action that needs to be taken.

Since these individuals may have received earlier information or education outside of the environment where they are taking action


THE FUTURE IS BEAUTIFUL
FUTUREGROWTH
/ ASSET MANAGEMENT
How do we move into a beautiful future?
Choosing returns that matter means putting your money to work in a way that not only benefits you, but the bigger picture, too. By investing in sectors like transport infrastructure, energy, healthcare and housing, we're building a future where the economy can grow along with your investments.
CHOOSE RETURNS THAT MATTER.
Choose Futuregrowth.
www.futuregrowth.co.za
A Member of OLDMUTUAL INVESTMENT GROUP
Futuregrowth is a licensed Financial Services Provider.

(reading an article on saving for retirement followed by going to a product provider's website), the alignment between education initiatives across the industry plays an important role in this phase. Even the terminology used between companies or in the media compared can create difficulty and undo the impact of educational efforts. It is important that disclosure standards for financial products strike the right balance between ensuring unbiased, clear disclosure while not confusing customers with too much detail.

Recognition of the action taken is important in the maintenance phase

Rewards or recognition-based learning incentives should be included in an education campaign to build on the success of the behaviour change and create habits.

Information about the benefits of saving for retirement would be irrelevant and potentially frustrating to this audience, but information on how best to review and grow their retirement savings – much like care instructions after a consumer purchase – would be relevant and likely more effective.

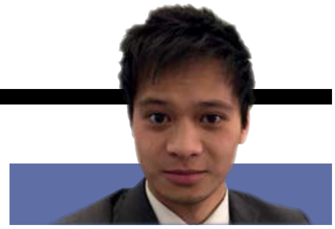
Applying a behaviour change model to financial education requires understanding the audience

Education initiatives are far more likely to be effective if time is spent understanding the challenges facing the target audience from a holistic perspective that includes competing financial, time and attention demands. This will allow identification of the specific behaviours that need to change, the type of information needed and the most effective method of delivery.

A general rule of thumb is that financial education is most useful in the earlier stages to initiate behaviour change, but does not sustain the momentum. Education should focus on building confidence as opposed to increasing knowledge. ■

__Wanita Isaacs__ was appointed as head of investor education at Allan Gray at the start of 2013. Prior to that, she was a business analyst in the product development team. She is a medical doctor and a UCT graduate and has been with Allan Gray since 2008.

By Ainsley To



INVESTMENT

The bliss of ignorance

In theory, financial theory and practice are the same. In practice, they aren't. No amount of education can change that.

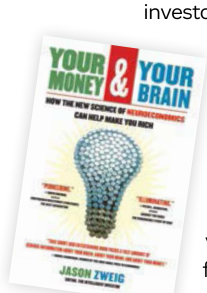
Is additional financial education going to create more problems than it solves? And if so, are there alternatives to simply increasing the quantity?

The very concept of financial literacy would imply there are clear definitions of the truth. The problem is that finance suffers from what Andrew Lo calls "physics envy". Because of the reflexive nature of capital markets, theories tested in a lab cannot be applied directly into practice with the confidence of other sciences (central bank forward guidance being a great example of this). Absolute truths are often only available in hindsight and any *ex ante* theory is open to subjectivity. The danger lies in the fact that, because we as humans are averse to ambiguity, we seek further comfort in our theories by assuming away uncertainty in our models – to the point that we are sacrificing practical usefulness in exchange for trying to explain the unexplainable.

"The only true wisdom is in knowing you know nothing." – Socrates

We can see the dichotomy of theory and practice in what the real experts say versus what they actually do. Harry Markowitz's modern portfolio theory has been widely taught for decades as a framework for making investment decisions, but Markowitz himself doesn't use Mean Variance Optimisation (see Jason Zweig's *Your Money and your Brain*). Since one of the key assumptions that you can predict future returns and volatilities does not hold in reality, he used equal weighting for his personal asset allocation.

Ray Dalio, businessman and founder of investment firm Bridgewater Associates, may have spent 40 years developing his model of "How The Economic Machine Works" but to this day his and his family's wealth are all in risk parity strategies since he is not confident of his ability to predict the future in practice.



Similarly, Warren Buffett, who has turned value investing and stock selection into a modern-day religion, has all his wife's assets in a tracker fund and suggested many investors today do the same. Simplicity and humility are rarely the refuge of the theoretically uninformed, but often the result of tried and tested practical experience.

Unfortunately the road to financial wisdom is non-linear. Beyond the basic level of knowledge, financial education goes through a period of negative carry due to the costs of incremental hubris (see graph). Overconfidence and the Dunning-Kruger effect have been well documented for all types of investors. More exposure to financial theory could have the unintended consequence of leading more investors down the slope of incremental hubris.

So if the actual experts don't know, and many self-proclaimed experts don't know that they don't know, what chance do individuals have of being educated to a level where they know? Perhaps a more pragmatic approach than expecting every individual investor to achieve financial enlightenment is to focus on other areas.

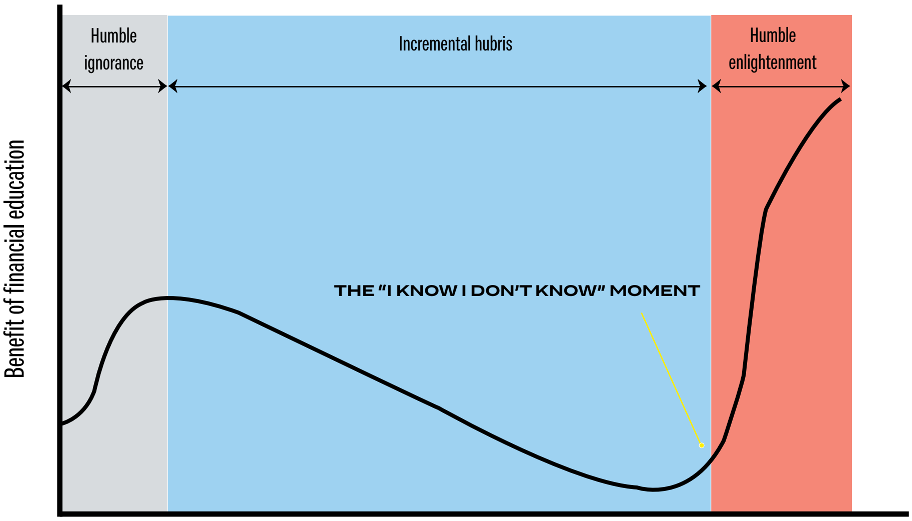
Avoiding miseducation

One of the main forces pushing individuals onto the path of hubristic 'macro tourism' is the financial media. Jason Zweig summed up the conflicts in today's financial press very well: "There are three ways to get paid for your words: 1.) Lie to people who want to be lied to and you'll get rich 2.) Tell the truth to those who want the truth, and you'll make a living 3.) Tell the truth to those who want to be lied to, and you'll go broke."

With or without more financial education, it can be extremely difficult for many retail investors to validate an 'expert' opinion.

Yet many actually end up making financial decisions based purely on the untailored, unregulated and unaccountable 'advice' they hear through mainstream media outlets. The vicious circle of newsflow-prompted turnover, leading to price volatility and ultimately back to more fear-induced news watching is a tax on all investors.

THE INVESTOR'S LEARNING CURVE



SOURCE: Credo

Perhaps more stringent regulation in the form of wealth warnings ("FOR YOUR ENTERTAINMENT ONLY, DON'T TRY THIS AT HOME!") and higher standards of accountability for pundits can help give investors a less biased perception of expertise (e.g. "999 999 out of 1 000 000 lottery tickets did not win").

Between the extremes of complete freedom of speech and blanket censorship there should be a happy medium where financial pundits and retail investors share the spoils. Unfortunately more wealth is being destroyed today from brainwashed investors attempting to be Warren Buffett than the Oracle of Omaha has made over his whole career.

Breaking the behavioural barriers between knowledge and action

Another wedge between theory and practice are the behavioural barriers that obstruct financial knowledge from resulting in action. According to data from the UK Pensions Regulator, the success of auto-enrolment in that country is testament to how we can use behavioural insights to improve decision-making for savers without the need for financial education. An investor's savings rate is one of the few things in their control and simultaneously the biggest factor affecting the size of their retirement pot – utilising inertia through automated contributions can turn this bias from a headwind to a tailwind for savings. Similarly, defaulting to systematic rebalancing can help mitigate the disposition effect and irrational loss aversion.

Direct incentives such as fees can also improve investor outcomes more effectively than knowledge. Loyalty discounts can incentivise an investor to increase their time horizon – if clients feel they are getting a better deal through longer-term investing, this could help reduce overtrading and short-term performance-chasing that continue to be so pervasive.

Despite any level of financial literacy, many investors (both fiduciaries and asset owners) are unable to completely avoid the temptation to speculate. Structuring an investment solution so that a small portion of the portfolio is dedicated to "speculation" from the outset can satiate an investor's lust for action. Though the expected return from these trades is negative, the benefits could outweigh the costs if it can divert one from taking out one's emotions on the entirety of one's portfolio.

Conclusion

A minimum level of initial financial education remains invaluable for any individual. But the worst enemy of most investors over the long term is not the market, it is they themselves. Teaching investors to make the theoretically optimal financial decision brings no guarantee that they can implement and stick to those decisions in practice. Humanity's reach already exceeds its grasp, let's focus on improving the latter. ■

***Ainsley To** is an analyst for the multi-asset team at Credo Capital, undertaking cross-asset research in asset allocation as well as fund selection. Prior to Credo, he worked at Stamford Associates, Fidelity and Bloomberg. To has been a CFA Charterholder since 2014.*

By Dave Crawford

INVESTORS VERSUS FINANCIAL SERVICES

INVESTORS AND FINANCIAL SERVICE PROVIDERS ARE TO BLAME FOR THE ISSUES AFFECTING INVESTING

	INVESTORS' MISTAKES	SERVICE PROVIDERS' MISTAKES
ONE	Believing that they can get rich quick.	Trying to be too clever with complicated products, too many products and too much industry jargon.
TWO	Not understanding the difference between consumption for today and savings for tomorrow.	Not making an effort to interact and communicate with members in a meaningful way and not providing meaningful measures.
THREE	Having the wrong attitude and behaving incorrectly with regard to managing their own retirement process, especially where defined contribution funds and retirement annuities are concerned.	Not appreciating that investors and markets are mostly irrational and cannot be accurately predicted or modelled...
FOUR	Not teaching themselves or their children about personal finance concepts like compound interest, etc.	...and yet taking advantage of that 'irrationality' to sell products by making unrealistic promises.
FIVE	Not fully appreciating the long-term impact of costs on their investments.	Using too many scare tactics to call investors to action.

__Dave Crawford__ studied agriculture at Stellenbosch and farmed until 1977 when he joined Cyril Ginsburg at what later became Ginsburg, Malan and Carson. He joined Legal and General Volkskas in 1981 and was retrenched from the position of strategic planning manager in 1989.

By Michael Falk

LETTER TO INVESTORS

To: Anyone who has ever taken a financial education course or bought a financial product
From: We, the financial educators and industry at large

Subject: It's not you; it's us

Dear Investor

Study after study indicates that our efforts to help or teach you to learn about financial topics haven't worked. For years, we secretly blamed you. However, the more we have reflected on this, the more we thought about the two sides of the coin, as it were. We had an epiphany (a.k.a. we read the trust surveys about our industry) and realised that blaming you was wrong; it was never your fault. In light of the evidence, it was we who didn't know how to educate or communicate with you. Can you ever forgive us? Can we try to make amends?

We're sorry.

With a bit of study, soul-searching and hindsight, we're changing.

Do you recall whenever we explained a financial topic, all the characters in our story behaved appropriately? We did this because really smart people (e.g. finance PhDs and Nobel Laureates) "proved" with really complicated maths how people behave and make decisions. We were seduced by their brilliance, and their equations gained our trust. And, if we're really being honest, we never really understood their maths. We are so sorry for mistaking their classroom learnedness and financial models for the real world in which we all reside.

Furthermore, we were wrong to provide you with answers we knew were tenuous at best, simply because that's what you wanted to hear. We worried that if we didn't offer answers, you wouldn't hire us or buy our products. Do you realise how difficult it is to sell hope?

Again, we're sorry. The truth is that the future is unknown, and no answers will be known as right (or wrong) until the future. We all need to come to terms with that reality.

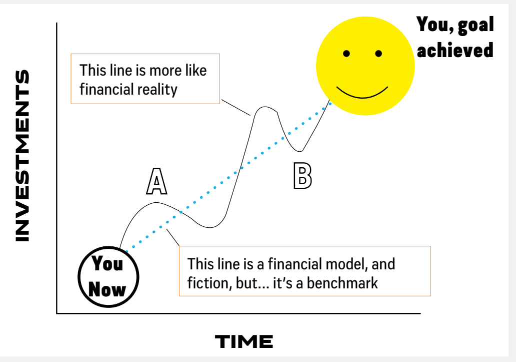
So... our new, "enlightened" reality will be to offer explanations and education that CAN actually help. We need to help you learn:

1. How needs and wants impact financial plans. Can you imagine a spending plan – budgets are SO constricting – that prioritises your needs, allows for aspirational spending and helps alleviate the stress of debts?
2. Why most ads/commercials are about stimulating wants, and how to defend yourself.
3. How spending and happiness relate. Hint – it's not about accumulating "stuff".
4. Why we mostly "satisfice" (satisfy and suffice) when we make decisions, and how that can hurt with certain types of decisions.
5. How what feels good affects our decision making, and how this is influenced by our environment and our mood.
6. Bonus learnings – why today seems so much more important than the future, and why opposite-styled choices today (e.g. buying stocks when the market falls versus when it rises) often benefit your future.

We need to change too:

1. **Our language needs to be understandable AND useful. Case in point, risk to you is simply about falling short of your goals versus our volatility, standard deviation or permanent loss of capital.**
   - We will re-frame the goal as yours versus ours (like a stock-market bogey).
   - We will regularly remind you of where you are and discuss your potential paths to success. For example, when the probability of your success rises (as in A below), you could save less, invest more conservatively or stay the course and maybe achieve your goal earlier. However, when the likelihood of success falls (as in B below), you could start to save more, invest more aggressively or delay/change your goal. And, we will work to flatten the red line, to help minimise such decisions. Hint – be diversified.

2. **We will offer standardised benchmarks to help with your decisions. For example:**
   - We will discuss how much of your income should be spent or not spent on your mortgage, or how much your household should have in an emergency fund.
   - We will teach you how to estimate the savings needed for goals (the dotted line to the right).
   - Bonus – we will show you how to spot flaws (exceptions) in standardised benchmarks.



Help us help you reach your goals, be more financially literate and rebuild your trust in us.

Yours tru(thful)ly,
The Financial Services Industry

__Michael Falk,__ CFA, CRC is a partner with the Focus Consulting Group, and a partner and the chief strategist on a global macro hedge fund.

In a shifting media landscape, media companies need to be at the forefront of innovation in order to keep up with consumers. Abroad, the sector has come to the party, with investors keen to join in. Save for a few, South African media companies are struggling to do the same. **Marcia Klein** takes a closer look.

CAN SA MEDIA STEP INTO THE FUTURE?

The media sector is arguably one of the most vibrant and exciting for investors in the US and elsewhere. Companies constantly innovate to keep pace with changing consumer habits and demands; Google, Apple, Netflix and Facebook are essentially the News Corporation or Pearson groups of today.

In South Africa, however, the transition from old to new media has been tough from an investment point of view. Media companies like Times Media Group, Primedia and others have delisted from the JSE.

In addition, the sweeping changes in media are largely being followed, rather than led, leaving investors with limited choice in terms of investment in media companies or any of the innovative changes in this exciting sector.

There are only two locally-listed media companies. One is Naspers – owner of traditional media such as the newspapers *Beeld, City Press* and *Daily Sun*; magazines (including *You* and *finweek*), and, more importantly, significant exposure to social media companies like e-commerce and the China-based Tencent. The other is Caxton, a traditional media publishing company that owns community newspapers as well as printing and packaging businesses.

Both have historically been good investments. Caxton, up 22% over the past year, remains a traditional print media play with the share price largely reflecting the value of its assets. It has a price-to-earnings ratio (P/E) of just over 15. Naspers is the only share on offer that reflects the changing media landscape due to its investments in pay TV, social media and e-commerce and its global diversification. Its price increase of around 60% over the past year reflects this, although its P/E of over 100 may scare risk-averse investors.

Naspers is the only share on offer that reflects the changing media landscape due to its investments in pay TV, social media and e-commerce and its global diversification. Its price increase of around **60%** over the past year reflects this.

Time to change the channel

Media companies are also, due to the rapidly changing environment, subject to volatility. Bloomberg recently quoted Sanford C Bernstein analyst Todd Juenger saying analysts need to change the way they think about valuing media companies. He was referring specifically to the US television

MEDIA TRENDS TO LOOK OUT FOR

Vicki Myburgh, entertainment and media leader at PwC Southern Africa, has this to say about the changing media landcape:

■ Affordable internet access will inhibit the revenue growth of various media sectors as consumers use it to access free, ad-funded and lower-priced subscription-based services. Mobile technologies will play a key role in driving this trend by making services more available and affordable to a wider base of consumers.

■ The internet has accustomed users to the idea of instant access to content. In many cases, this content was initially delivered at no cost to the end user, and this apparent lack of a monetisation model caused owners of expensive content to hold back from making it available online. However, as sales of physical media continue to decline, globally expanding services such as Spotify, Netflix and Naspers's ShowMax are managing to build a sizeable paying audience for content delivered over the internet.

■ On-demand models are not solely about making digital versions of content available to paying consumers. These new services are also building their business on an understanding of the way consumers' expectations are changing. The model of traditional media asks consumers to pay to own a physical copy – a book, CD or DVD. But attempts to replicate the "ownership" model in digital media have struggled. In music, for example, revenue from digital downloads – where consumers pay to own a file – are already declining in markets such as the US, and are set to be overtaken by revenue from digital streaming services, where the consumer pays merely to access the content.

■ Devices will increasingly shape media and entertainment services – and the market as a whole. Smartphones are emerging as the most popular way to access the internet. The challenge for companies is to persuade consumers that those services should be paid for.

> "Today's entertainment and media companies need to do three things to succeed: **innovate** around the product and user experience; develop seamless consumer **relationships** across distribution channels; and put **mobile** (and increasingly video) at the centre of the consumer experience."

industry, which has experienced a decline in pay subscription and advertising. Media companies have to continuously evolve if they want to keep attracting investment. Major US companies, including Viacom and Disney, have been under severe price pressure – analysts suggest their revenue stream formulae may no longer be appropriate and, as Juenger says, the "US television industry is entering a period of prolonged structural decline". This is can be likened to the position the print industry was in a decade ago. Print companies have been in slow decline as circulation and advertising revenues drop. Those companies that have read the trends and evolved, however, continue to flourish.

For investors, the trick is to identify companies that are best able to evolve and to identify trends that are changing the way we view media companies, and adjust accordingly. Local investors wishing to have media in their portfolios need to change their perceptions of media companies and see them as content providers, content platforms and distributors of technology. Only a few companies in South Africa have managed to position themselves in this way, but analysts are in general agreement that one of those companies, Naspers, is accessible to local investors.

What's showing?

PwC's *Entertainment and media outlook: 2015 to 2019*, published last month, reflects how quickly the media landscape is changing.

In SA, total spend on the internet will be growing strongly over the next four years while spend on radio, TV and video games will be more pedestrian, and spend on newspapers and magazines will be marginal at best.

PwC says SA's entertainment and media market rose 11.5% to R112.7bn in 2014 and should reach R176.3bn in 2019, but the overall rise will be fuelled by digital growth. "Internet access and advertising revenues as a percentage of total entertainment and media revenue will rise from 31% in 2014 to 46% in 2019." PwC says internet access is making up a larger portion of overall revenue. Digital revenue, currently 33% of total entertainment and media spend, will rise to 49.6% in 2019 and could account for the majority of overall revenue by 2020. This was only 16% in 2010. There will be 50m smartphone connections by 2019.

PwC says South Africa's entertainment and media market rose

11.5%

to R112.7bn in 2014 and should reach R176.3bn in 2019.

Vicki Myburgh, entertainment and media leader at PwC Southern Africa

Vicki Myburgh, entertainment and media leader at PwC Southern Africa, says in the outlook that "today's entertainment and media companies need to do three things to succeed: innovate around the product and user experience; develop seamless consumer relationships across distribution channels; and put mobile (and increasingly video) at the centre of the consumer experience".

She suggests that the South African media market is approaching a tipping point due to the very subdued rise of 'traditional' media being overshadowed by digital media's strong performance. According to the PwC outlook findings, the 33% share attributed to digital entertainment and media spend in 2014 will rise to 49.6% in 2019. By 2020 digital revenues could account for the majority of overall entertainment and media revenues.

"Digital recorded music revenue is set to overtake physical recorded music revenue in 2019; electronic home video revenue will surpass physical home video revenue in the same year, and South Africa will be one of the few markets globally where social/casual gaming revenue (which is primarily app-based) will overtake traditional gaming revenue by 2019."

Myburgh also points out that music, magazines and newspapers face strong competition from the internet. Consumers can access much of the content available in these formats for free online. "In South Africa's newspaper industry, titles such as *Isolezwe* have thus seen success by being able to offer quality Zulu-language content, which is less available online, and to reach areas that don't necessarily have widespread internet access."

David Ferguson, analyst at Renaissance Capital

Clinton Jacobs, IT analyst at BMI-T

How to be a star, or even feature

Working out what to invest in based on these trends is not easy. Richard Tessendorf, an analyst at Avior Capital Markets, says investment decisions always come down to specific companies. In Caxton's case, investors tend to make decisions based on the value of assets in relation to the share price.

In most cases media companies will be in a process of continuous evolution and it is a question of whether they can manage that, he says. The lines are blurring between some internet companies, traditional media players and technology companies. Apple and Google are examples of that, he says. But from a South African perspective, the choice is limited. There are, for example, no radio companies to invest in.

Myburgh says the lines between the traditional role of a media company, a telecommunications company and a technology company are becoming increasingly blurred. "Few would question the role of affordable internet access in kick-starting the digital transformation of media and entertainment, but its ability to disrupt the market in new and radical ways cannot be underestimated. The ongoing spread of services to mobile networks, new devices and emerging markets will change how media and entertainment is served, consumed and monetised."

Analysts' views

David Ferguson, an analyst at Renaissance Capital, says Naspers is a good example of a traditional media company that has identified how the media is evolving and adjusted – first in pay TV, then mobile, internet, social media and e-commerce. It has evolved its business model and it has evolved geographically and is in global markets, so it is an attractive company, he says.

While the narrow definition of a media company may no longer be applicable, investors wanting exposure to media should not necessarily include distribution platforms, like cellphone or internet providers, in their definition of media groups.

"The value sits with either the content owners or the people who have the consumer relationship, which is not necessarily the mobile operator or the distribution platform. Netflix, for example, has both the content and the customer relationship – the winner there is not the broadband operator. Distribution on its own is not enough. There must be a consumer point of contact, and then the company decides to sell its own or other content. Having the consumer contact is what is important," adds Ferguson.

Tessendorf says it is often argued that people won't pay for content, but the MultiChoice (owned by Naspers) business is founded on paying for content. Even disruptive companies like Netflix are offering paid-for content. YouTube was founded on user-generated content that is not being paid for directly but it is evolving, to some extent, over time.

PwC says that "as sales of physical media continue to decline, globally expanding services such as Spotify and Netflix are managing to build a sizeable paying audience for content delivered over the internet".

Clinton Jacobs, an IT analyst at BMI-T, says one of the biggest changes over the next few years is the evolution of paying for information versus getting it for free. There are also big changes in advertising, which has become more targeted than ever before. "Advertisers appear to have access and know what you are talking about. Traditional players, which have [usually taken] a shotgun approach, face a huge challenge. Traditional media focuses on market segments, while new media focuses on the person in that market segment," he says.

Jacobs says traditional players will argue that they provide quality content. "[As a consumer] I, for example, would like to read and hear someone I respect. But with news, there is so much of it and such a quick turnaround, it is all about hits and views, and tomorrow there will be another story."

In the end, both are valuable, but companies need to decide if they are trying to be first or if they are providing in-depth analysis. Companies are trying to straddle both with a "freemium" model, where basic information (what happened) is free, but in-depth information (why it happened or what it means) is paid for. On previously free platforms, success has been varied. Most modern media companies have to have a bit of both, he says, but every media company has to be online. ■

editorial@finweek.co.za

South African media group results

NASPERS

Year to March 2015
Revenue:
2015: R132.4bn
(2014: R104.9bn)

Core headline earnings:
2015: R11.2bn as chair
(2014: R8.6bn)

Internet revenue:
Up 37% to R78bn
(e-commerce revenue up 36% to R27.8bn, Tencent revenue up 40% to R47.9bn)

Video entertainment revenues
Up 17% to R42.4bn

Print media revenue
Up marginally to R12bn from R11.7bn in 2014.

Internet makes up 59% of revenue, video entertainment 32% and print 9%.
By geography, 41% of revenue is from Asia, 27% South Africa and 15% Europe.

CAXTON

Year to June 2015
Revenue:
Up 16% or down 3% on a comparable basis (excluding acquisitions).
2015: R6.2bn
(2014: R5.4bn)

Headline earnings:
Up 10.6% to R10.88/share

Publishing, printing and distribution profit:
Up 72%.

Caxton said its newspapers outperformed the rest of the market, while digital investments almost doubled. It referred to declining circulations and advertising revenues in newspapers, and a "rough patch" for magazines.

TIMES MEDIA GROUP

From Tiso Blackstar results for the six months to June, following Tiso Blackstar's buyout of TMG in June:
The media division (including *Sunday Times, Business Day, Sowetan, Financial Mail*) earnings were down 11%, with (*Sunday Times* being "the title most affected by the cyclical nature of advertising markets".)

TMG's core EBITDA (earnings before interest, tax, depreciation and amortisation) was R179m, and was affected by a R67m decline in Sunday Times *advertising revenue.*

Investors jostle for slice of African property pie

Property investors flush with capital and keen to explore new markets have turned to Africa where the story of rapid growth rates continues to unfold, according to research by real estate investment specialist JLL. *finweek* reports.

By Shoks Mzolo

Developments are well under way along Mozambican capital Maputo's beach-facing Marginal Avenue, for example, where new skyscrapers vie for space next to old ones. Expensive apartments and office blocks under construction define the CBD and stretch all the way to Costa do Sol in the east and Matola in the south.

With the continent's current infrastructure deficit, it can be expected that such sights will remain.

Sub-Saharan Africa's infrastructure development projects currently total a minimum of $100bn, according to Lyal White, director of the Centre for Dynamic Markets at the Gordon Institute of Business Science (Gibs). Property development, including residential, shopping space, industrial zones and hotels, among others, is central to this number. Hence the sustained interest in the property sector.

The discovery of large deposits of natural resources, such as gas, in Mozambique, Tanzania and elsewhere will help push the real estate industry even higher, delegates heard at the African Property Investment Summit (APIS) held in August.

Funds pour into the sector

Private equity funds and governments have also come on board. For now, up to half of funds are sourced from South African entities, with investors from North America, Europe and the Middle East making up the balance, according to Lagos-based Adeniyi Adeleye, Stanbic's head of real estate finance in West Africa.

Active players include Atterbury, Old Mutual, Sanlam and Resilient – which in August completed construction of a 14 000m² Delta Mall in Warri, about 400km southeast of Lagos, a $60m project (with tenants like Shoprite, Truworths and telecommunications firm Airtel). Resilient is due to complete other slightly smaller malls, in Asaba and Owerri in the same region, between now and next year, while a few more are in the pipeline.

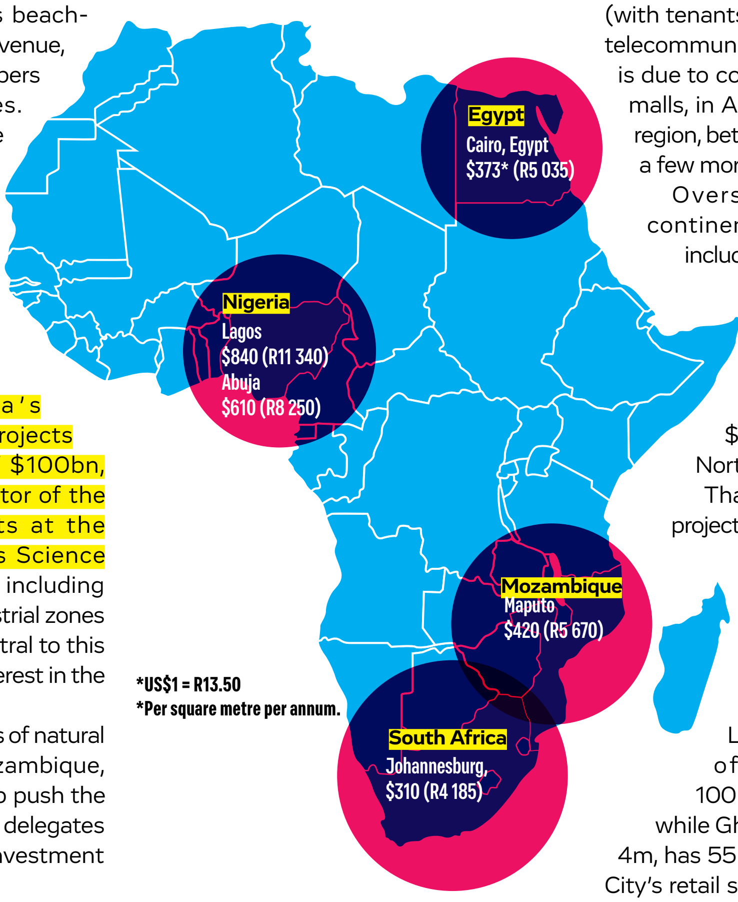
Overseas firms active on the continent, noted Adeleye at APIS, include British firm Actis and Dubai-based Emaar Properties and private equity investor Abraaj. The *Financial Times* reported earlier this year that Abraaj had raised $375m for a fund targeted at North Africa.

That, including capital raised for projects in sub-Saharan Africa, brings the total to $1.4bn – a record in any one year.

The reason for this appetite is the shortage of quality real estate. For example, Adeleye notes, Lagos – with a population of 17m – has less than 100 000m² of formal retail space, while Ghana's capital Accra, home to 4m, has 55 000m². In contrast, Sandton City's retail side is a huge 130 000m² and Durban's Gateway some 120 000m².

Lagos is currently the leading destination global capital flows bound for sub-Saharan Africa, according to JLL. West Africa's gnawing scarcity of quality property explains why rental in, say, Nigeria – retail, office, industrial and residential – tends to be double what landlords, on average, in East, North and Southern Africa charge (see graph and table).

REGIONAL OFFICE SPACE IN AFRICA



*US$1 = R13.50
*Per square metre per annum.

Lagos – with a population of 17m – has less than 100 000m² of formal retail space while Ghana's capital Accra, home to 4m, has 55 000m².

Challenges

But the growth in Africa's property industry does not come without ever-present challenges, says White, cautioning investors not to view all African countries as a single geography.

The approach should be "a variable strategy" and not "an Africa strategy" that fails to acknowledge inter- or intra-country differences.

Some companies that fail would blame it on the African market, but White says these companies often didn't tailor-make their offerings.

"You need to work around each country's parameters," he asserts.

Even so, conditions look challenging now, according to Dr Martyn Davies, MD of emerging markets & Africa at Deloitte. Addressing the property summit, he noted how global economic tailwinds had turned into headwinds for Africa.

"The macro environment is now disabling for Africa and negative sentiment toward frontier and emerging market countries will result in multinationals becoming far more discerning with their capital," said Davies.

Turning to some of the underplayed make-or-break factors, Mauritian firm Omnicane's Joël Bruneau singles out partnerships. For its part, Omnicane partnered with local companies when it entered Kenya. The venture has served both firms well, he says, with the Kenyan firm now investing in the island in turn.

But, cross-border investing on a continent with dozens of currencies isn't without its hitches. As it is, Gerard Zeelie, head of real estate finance (Rest of Africa) at Standard Bank notes pressure on corporate tenants battling to manage the currency risk of US dollar-indexed rentals.

"This is especially true in periods of high volatility and rapidly devaluing currencies. If tenants are unable to absorb the currency risk this could lead to tenant defaults and possibly higher vacancy rates," he observes. "The cash flow obligation of higher interest rates on local currency facilities could also be managed through some innovative structuring."

The difficulty for property investors is risk that tenants experience when rentals are US dollar-denominated. Since tenants typically earn revenue in local currency, they cannot absorb the currency differential costs indefinitely, Zeelie explains, citing forex hedging and hybrid currency financing structures as solutions.

Noting that the Kenyan shilling and Nigerian naira "are taking a hammering", Gibs's White concedes currency fluctuations complicate matters but insists that this doesn't make such markets less appealing. "African countries – notably Angola, Guinea Bissau and Nigeria – are going to struggle, but it's all cyclical. Asia and South America went through similar problems and challenges."

Meanwhile, the property space is characterised by "tangible progress and momentum", notes JLL. ■

editorial@finweek.co.za

WHAT TENANTS PAY IN DIFFERENT COUNTRIES

Ghana
Rent* – Industrial: $8-$10. Yield: 11%
Rent* – Retail: $50-$55. Yield: 8%

Kenya
Rent* – Industrial: $4.3-$4.7. Yield: 7.5%-10%
Rent* – Retail: $35. Yield: 8%-9%

Mauritius
Rent* – Industrial: $4. Yield: 8%
Rent* – Retail: $11-$45‡. Yield: 8.5%

Mozambique
Rent* – Industrial: $6. Yield: 14%
Rent* – Retail: $34.5. Yield: 12.5%

Nigeria
Rent* – Industrial: $9. Yield: #
Rent* – Retail: $50. Yield: 8.25%-8.5%

Rwanda
Rent* – Industrial: $6. Yield: #
Rent* – Retail: $23. Yield: #

South Africa
Rent* – Industrial: $5. Yield: 8.75
Rent* – Retail: $22-$36.Yield: $7-$9

$1 = R13.50

**Rent per square metre, per month.*

#Investment transaction data not available.

‡Depending on size.

SOURCE: WWW.BROLL.COM

DEVELOPMENTS OFFSHORE

Mauritius boasts a template for smart cities, a new trend in Africa. Dubbed Mon Trésor ("my treasure"), the island nation's scheme is among the projects that could, in a few decades, redefine African landscape and lifestyle.

"Over the last decade, Mauritius has established itself as a strategic, progressive, stable and trusted business destination," says Joël Bruneau, head of property development at Omnicane. He also refers to notable growth in the country's real estate sector since 2005. Things continue to look up as investors, including those from SA, snap up property and in turn drive up this nation's foreign direct investment as Mauritians reported at the annual Africa Property Investment Summit held in Sandton.

Yan Ng, the executive director of financial services company Intercontinental Trust, told summit attendees that Mauritius is bolstering its property industry by creating mixed-use schemes whose objectives include brain gain. An example is the coastal 480ha mixed-use smart city, 50 minutes south of the capital Port Louis.

Bruneau explains: "Mon Trésor is designed to be a flagship of 21st century conurbation lifestyle, cast in sustainable values and focused on quality of life, where professional, private and social life all lie within reach; an inclusive community with a genuine local spirit and a cosmopolitan flavour."

Construction of the first phase kicked off with the building of a Holiday Inn at the airport. Development of office space and light industrial zones gets under way next year. Completion is set for 2017.

on the money

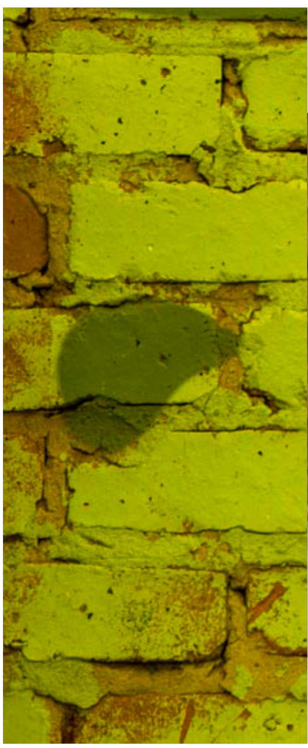
THIS WEEK:

ENTREPRENEUR PROFILE

By Mandy de Waal

The art of street fashion

After years of struggling in the cut-throat world of fashion, Butan's Julian Kubel has finally broken through with a street-style label that's making waves in South Africa, Namibia, Botswana and New York.



Julian Kubel's fashion brand Butan is set to break into the New York market.

Images: Lebz Skywalker

Sammy Boss-Zonke Mokone — who works in the financial sector — types the following on the Facebook wall of an urban, street smart fashion brand called Butan: "Heed the call. I mean seriously, when can we expect new spring/summer stuff?"

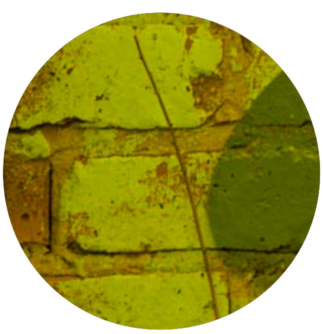
Butan's come a long way since it was first commercially available in 2006. Thanks to a smart product and clever marketing, the cool crowd clamour for Butan – even using the brand's marketing slogan, 'Heed The Call', to express their desire to get their hands on this clothing label that's all about South African street culture.

But like many business successes in the fashion sector that started small, Butan's growth hasn't always been smooth sailing. "I've made mistakes," Julian Kubel, the founder of Butan confesses in an interview with *finweek*, just before jetting off to New York for a fashion shoot that features his line. Kubel will also be promoting the brand at a top trade event in the US city.

"In 2008 I nearly went bust when the financial crisis took hold," Kubel says. "In 2007 the brand was doing well and I didn't anticipate a slump in the economy. I took all the money that I had made from selling Butan Wear, and invested it in fabric. But when the downturn came, things changed." He was cash-strapped and the market was sluggish.

Kubel explains that the stores selling his urban lifestyle gear weren't performing. Another challenge was cash flow. The brand's growth meant that his business had changed from being cash-based to an account-based concern. "This meant that the stores were paying me a lot slower and I just wasn't geared up for this. I've never been formally trained in business or fashion so I've made seriously silly mistakes, but I'm glad I made these mistakes when I was younger and could bounce back. These mistakes have taught me to really

> "The past few years have been difficult, but now business is snowballing. I've put in the hard work and the brand is now gaining real traction."



understand my business," the entrepreneur says.

Fashion wasn't Kubel's first choice; he studied mechanical engineering at the University of Cape Town (UCT) because he was good at physics and science, and was passionate about technology. But after he exited UCT, degree in hand, he decided to start his own clothing company. He was convinced he wasn't cut out for a corporate career.

While still at school, Kubel had started a small business printing branded T-shirts and selling them to his friends.

"I started the business with R2 000 which I borrowed from my parents when I was 19. I bought T-shirts, created my own brand name and had them screen printed. But this small business didn't have any clear direction," he says.

However, the endeavour exposed Kubel to the basic ins and outs of the garment trade. Before he knew it, he was making T-shirts for UCT Radio, as well as various faculties and residences at the university. Down the line he also won a contract with UCT to produce the university's official T-shirts that are sold in the campus store.

Kubel started the Butan brand as a pet project, but the clothing line wasn't making money. It was more like a passion that was supported by his T-shirt business. "I struggled in Cape Town with Butan because I seemed to have reached a ceiling in terms of the market. So I made the big decision in 2010 of moving to Johannesburg," Kubel says.

This success is likely due to Butan being a strong local and African brand.

In Johannesburg Kubel felt he'd be exposed to a larger market with the opportunity for bigger deals. This well-founded belief was realised when in 2011 he got his line placed in The Cross Trainer – retailers of sports fashion and lifestyle gear. "They committed to putting us in 14 stores, but I needed investment capital to deliver on what was a big order." Kubel brought two equity partners on board and raised R800 000 to take his business to the next level.

"We produced the clothing and delivered to the stores, but this relationship soured after a couple of months. The stock was performing, but the retailer changed the store content and subsequently thought our stuff wasn't right for them. They then asked us to uplift R400 000 worth of merchandise just before the festive season," Kubel says.

The options for Kubel were clear. He could fight the case legally based on his contract with the retailer, or allow the stores to discount the merchandise heavily to push it out of the stores. But discounting would have been incredibly bad for the fledgling Butan brand.

"I nearly threw in the towel. At the point when I had made a major breakthrough with Butan I was disappointed again. But within a week of receiving the bad news I was determined to make it work," he says.

A few days later Kubel struck a deal with Shesha stores, a clothing retailer with outlets in enviable locations like Melrose Arch, Canal Walk and Rosebank. Shesha sells limited edition street-style sneakers and apparel. This meant Butan would be placed alongside top international brands like Nike, Converse, Guess, and Alpha – the makers of sought-after military styled jackets.

"Within a week of facing failure I found a solution that wouldn't tie us up in court or hurt the brand. I had a new retail partner, and not just any partner, but exactly the right people for our brand," Kubel says.

Initially Butan would go into just one Shesha store, but Kubel was determined to give his all and ensure Butan performed well. Great sales saw his brand go from an initial order in one store into all eight of Shesha's stores. Currently

Butan is available in 20 stores countrywide, and is stocked by online clothing retailer, Spree.

"We've also moved into stores in Windhoek in Namibia and Gaborone in Botswana," Butan says. He was also invited to exhibit at Agenda, a prestigious lifestyle trade show held in New York that brings retailers and brands together from across the world.

"The past few years have been difficult, but now business is snowballing. I've put in the hard work and the brand is now gaining real traction," he says.

This success is likely due to Butan being a strong local and African brand. An anagram of the word Bantu – from the Zulu word *abantu* that means people – Butan is all about reclaiming what was lost to history and reappropriating it. "Butan is about owning our history. About honouring past traditions but giving them new meaning," Kubel explains.

"The Butan designs take a lot from South African culture and tradition, but repackage this in a modern way in terms of streetwear. This is an African brand and our garments speak to our experience of living in this country. In the old days, local fashion used to take a lot of reference from the United States. It was all about creating a cheap imitation of what already existed in the West," the founder of Butan says.

"But now we take pride in our own traditions and create signature garments that speak to the experience of living in the complexity that is Africa, and understanding the depth and complexity of what it is to be South African," he says.

Butan's success has been hard won, but today some of the celebrities who 'heed the call' include the likes of Kwesta, Driemanskap, Proverb and many others in the who's who of SA's happening Hip Hop scene. ■

editorial@finweek.co.za

JULIAN KUBEL'S BUSINESS ADVICE:

"Plan. Plan. Plan. Planning is everything. In the old days I would leap enthusiastically into new endeavours. Today I appreciate the need to prepare and plan well before going out into the market. Do your research. Think through all the aspects of a new project. Examine the market and understand how you'll roll out your plan. Before, I used to be very impulsive about how I would run my business. Today I plan everything."

"Be less emotional in your decision-making. A person's creative side is strong and can override rational thinking, so be sure not to make decisions purely on gut feel. Always think of the financial implications and business implications, because this will help you build a sustainable business."

"Don't trust people easily – not everyone is honest. Be streetwise – not everyone has a clear agenda, and remember that in business almost everyone is in it for self-interest. I'm very altruistic and believe we can all help each other have a piece of the pie. But this isn't how the world works – not all people think this way. Try and see people for who and what they are."

SA's love affair with the BMW 3 Series

Will the sixth-generation **BMW 3 Series** continue to capture South African hearts?

By Glenda Williams

Heading uphill into a curve, things could have taken a nasty turn if not for a hefty shot of power and agile roadholding to avoid the creeping truck looming around the bend. The penny was beginning to drop on the subject of SA's love affair with the 3 Series.

It's a love affair that has spanned 40 years, beginning when BMW opened its doors in the country in 1974. Since then, 1m vehicles have rolled off the German car manufacturer's Rosslyn production line.

The heart of BMW and undisputed top seller in BMW's brand line-up – accounting for around 25% of total BMW sales worldwide – is the 3 Series. And over the four decades since its launch here in 1975, the 3 Series has also captured the hearts of South Africans, around 40% of those purchasing a BMW opting for the 3 Series.

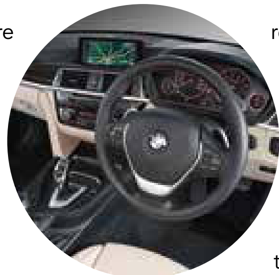
The series is now into its sixth generation. As a facelifted version rather than an all-new design, the subtlety of the refreshed styling is such that many may not immediately notice a difference... unless they happen to be a BMW boffin, or view the outgoing generation and this new sixth generation side-by-side.

Subtle they may be, but there are differences. Sporting larger air intakes and new headlight, tail light and bumper design, the new 3 Series has a

slightly wider and lower, and therefore sportier appearance. Sliding inside brings with it a feeling of cabin and switchgear familiarity, even given the addition of new materials, more chrome and a recrafted centre console.

3 Series fans can have just about any bell or whistle their hearts desire, including a host of mobility services and driver aids like head-up display and the latest navigation system via BMW's ConnectedDrive, but these come at a price. But fear not, the standard features and premium feel that BMW drivers have come to expect remain as integral components in this much-loved vehicle.

It is under the hood and on the road where the differences are pronounced. The six remodelled variants – four petrol and two diesel units – developing from 100kW to 240kW – all feature BMW EfficientDynamics engines with new generation twin-powered turbo technology. These revised turbochargers produce an even livelier performance paired with greater fuel efficiency. And this new 3 Series comes with



> **It hugs the road even at considerable speed and gobbles up long distances with minimal fuel consumption.**

revised chassis settings that include a stiffer suspension which, in addition to reducing roll movement, improves roadholding without compromising on the comfort factor.

Replacing the previous 316i is the 318i, now BMW's entry-level model, fitted with the new 1.5-litre three-cylinder petrol engine. The newly developed four-cylinder petrol engine in the 330i and six-cylinder in-line engine in the top-of-the-line BMW 340i now produce 135kW and 240kW respectively.

But the most popular variant locally is the 320, accounting for 60% of 3 Series sales. Given this and the unfair knock that diesel variants have been receiving of late, rather than the 320i petrol unit, my pick was the new 2-litre four-cylinder diesel model, the 320d.

Facelifts are subtle nip-and-tuck design changes, so even while one might be somewhat underwhelmed about the extent of the exterior and interior facelift, the same can't be said when it comes to the car's performance and driving dynamics.

It might not have the potent performance of the 340i, but packing 140kW of power and 400Nm of torque, the 320d sports more than enough grunt, essential for the cheeky overtaking manoeuvres undertaken on the winding, hilly roads around Magaliesberg and Hartbeespoort west of Pretoria. This, together with improved roadholding and reprogrammed precision steering, makes for sharp and focused responses, lessening the amount of work you have to do behind the wheel. Animated driving is supported by body-hugging seats (optional) that also contribute to the effortless driveability of the 320d. Hugging its passengers is not all the 320d does. It hugs the road even at considerable speed and gobbles up long distances with minimal fuel consumption. And that even when the driver employs the gearshift paddles that allow for a more involved and enthusiastic driving experience.

Efficiency improvements have also been achieved by using anti-friction bearings instead of plain bearings that reduce cold-start fuel consumption on the 320d.

Premium vehicles though don't come cheap and given pressure on disposable incomes and a flagging new vehicle market, BMW – like other car manufacturers – may be hard-pressed to keep sales volumes at the levels it has come to enjoy. That said, you get what you pay for and the love affair with the proven, quality-built, premium BMW 3 Series will likely endure. ■

editorial@finweek.co.za

The 3 Series: BMW's drawcard

- Six generations of the 3 Series have now rolled off the production line. **To date, 14m of these vehicles have been sold,** making it the world's most widely sold premium vehicle, and accounting for around one quarter of BMW sales.
- **The 3 Series is sold in 130 markets, with China, USA, Germany, UK, France and Japan the six biggest.** The 2014 sales figures for South Africa show that the 3 Series accounted for 40.7% of total BMW sales locally, while year-to-date figures posted in a challenging new vehicles sales market reflect only a nominal easing to 38.8%.
- **The BMW group has invested more than R10bn in the Rosslyn plant north of Pretoria since 1994,** and many of the 1m vehicles that have been produced here have been for export. In 2014, production for export at the plant increased by over 70%, says Stefan Huelsenberg, plant director, BMW Plant Rosslyn. As the country's leading exporter of premium vehicles, last year 87.5% of the vehicles produced here were destined for export, the biggest export markets being the US followed by Asia, Australia, New Zealand and Canada.
- **BMW SA supports more than 42 000 jobs** through its administrative and manufacturing operations as well as its dealerships.

Tested: BMW 320d

0-100 km/h:
7.2 seconds
Top speed:
230km/h
Power/Torque:
140kW/400Nm
Transmission:
8-speed Sports Automatic Transmission Steptronic
Fuel consumption (claimed combined):
4 litres/100km
CO_2 emissions:
106g/km
Safety:
Front, side and head airbags – nine in total
Service/maintenance plan:
5 yr/100 000 km motorplan
Standard model price:
R496 200

Snippets

BMW'S top seller
One in every four BMWs sold is a 3 Series.

Most popular 3 Series variants in SA
The current 320 variants make up 60% of BMW's 3 Series sales with the 320i topping the 320d in popularity.

Special Edition 3 Series
BMW South Africa will produce 400 special editions of the BMW 3 Series Sedan model to celebrate the 40-year anniversary of the iconic sedan.

The BMW 330e
The first quarter of 2016 sees the launch of the 330e plug-in hybrid in SA.

BMW's Rosslyn plant
The production facility north of Pretoria generates more than 1% of SA's total exports.

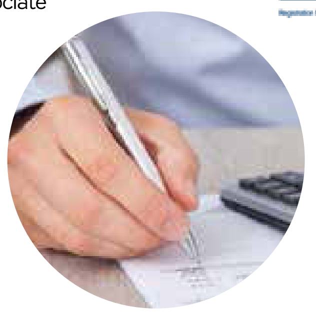
By Jaco Visser

Registering for payroll tax

Sars expects businesses to register for certain payroll taxes. *finweek* spoke to professional financial services firm, KPMG, on how to register for these taxes and how to comply with the relevant tax laws in this regard.

The new business should register for Employees' Tax (or Pay As You Earn – PAYE), Skills Development Levies (SDL) and/or the Unemployment Insurance Fund (UIF) within 21 days after becoming an employer. The application must be made to the Sars Commissioner in the prescribed form (EMP101). The relevant supporting documentation must accompany the prescribed application form when applying for the registration. The Commissioner will not process the application without the relevant supporting documentation.

PAYE is a withholding tax that forms part of the employee's income tax calculation at the end of the year. "Employers that pay or become liable to pay an amount by way of remuneration to an employee should register for PAYE," says Shohana Mohan, associate director at KPMG.



In addition to the registration as an employer for the purpose of withholding and remitting PAYE, an obligation exists for the payment of UIF contributions. Both the employer and the employee are required to make contributions to the UIF. The contributions are calculated at a rate of 1% of the employee's gross remuneration up to a prescribed remuneration threshold. The maximum remuneration on which UIF contributions are calculated is R14 872 per month or R178 464 per annum. The employee's contributions are made by way of a deduction from the remuneration they receive and are paid over to Sars on a monthly basis by the employer.

Registering for PAYE, UIF and SDL happens simultaneously with Sars.

Where the total amount of remuneration paid or payable by a business to all of its employees during the following 12-month period will exceed R500 000, the business is liable for an SDL, according to Mohan.

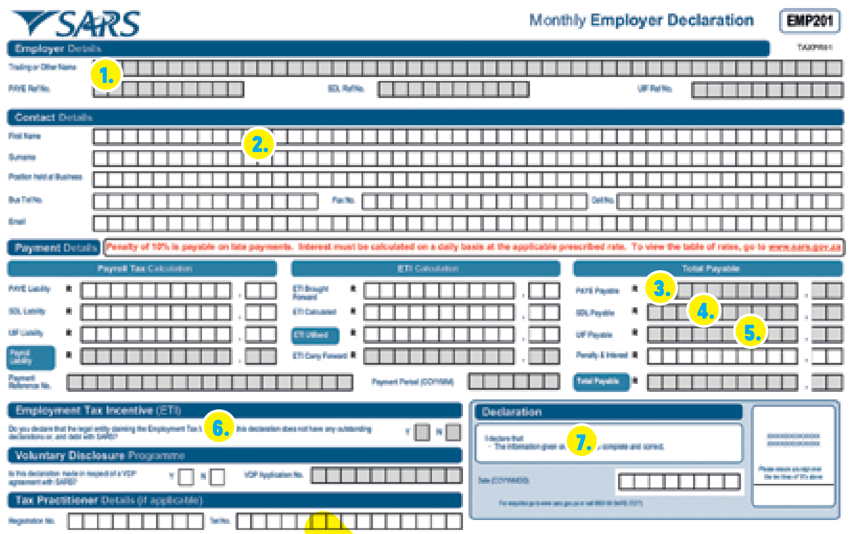
This levy, which is a compulsory levy scheme for the purpose of funding education and training, is intended to boost the development of skills in SA.

Registered employers that comply with the requirements of the Skills Development Act and Skills Development Levies Act can claim a portion of their annual remittance when they train their staff.

Registering for PAYE, UIF and SDL happens simultaneously with Sars. The new business should apply to register by completing an EMP101e. Once a business is registered for PAYE, UIF and SDL, a monthly employer declaration (EMP201) must be completed and submitted to Sars. ■

editorial@finweek.co.za

How do I submit my monthly EMP201 return?



Payments to Sars relating to PAYE, SDL and UIF should reach Sars on or before the seventh day of the month following the month in which the remuneration is paid.

Businesses that use Sars's eFiling platform need to make the respective declarations and payments within the prescribed timelines to avoid late payments. If payments are late, a 10% late payment penalty will be levied on the amount that the business owes Sars.

HERE'S HOW TO COMPLETE YOUR MONTHLY EMP201 RETURN ON EFILING:

1. The Employer Details section will be pre-populated by Sars.
2. Supply your details in the Contact Details section.
3. Capture the total PAYE that was deducted from employees' pay.
4. Compute and capture the total SDL amount that the business is liable to pay.
5. Compute and capture the total UIF amount – both the employer and employees' liability.
6. If the company qualifies for the Employees' Tax Incentive, the calculated amount should also be included.
7. Fill in the date in the Declaration section. This is the date on which the declaration is completed and filed with Sars.

By Justine Olivier

How to deal with an audit

In 2014, a total of 5.32m income tax returns were submitted, compared with 6.09m in 2013, according to the South African Revenue Service (Sars). Of these, about 100 000 taxpayers are audited annually.

What happens if you've been flagged for an audit?

Any taxpayer can be selected for an audit – no one is exempt. Essentially, Sars will look at your submitted return – in particular your tax deductions – and will determine whether or not you have tried to conceal income received.

Should Sars identify your return for review, Sars will ask you to send the relevant/supporting material to back up your submission. This can include receipts of medical expenses, retirement annuity certificates, financial statements and travel log books.

Says Nico Theron of Tax Consulting: "When it comes to a tax audit, being proactive is absolutely critical. Not only does this approach convey the message to Sars of your intentions to comply fully with their request, but also assists in managing any underlying risk.

"For this purpose it is crucial to enlist the service of a professional tax adviser as soon as you receive a notification of audit. Waiting for Sars to identify possible non-compliance before seeking professional advice may be costly and can result in lengthy dispute resolution procedures."

Fixed-amount penalties for non-compliance vary from R250 to R16 000 per month of non-compliance. Understatement penalties, for example, may be as high as 200% for the tax not paid, in addition to the tax payable.

AUDIT ADVICE FROM SARS:

- Upon notification, send the requested supporting documents to Sars within 21 business days of the date on the letter. Include the original letter as it contains a unique bar-coded reference that links it to your tax records.
- eFilers can scan and save relevant material. Log into eFiling, upload your documents and send them to Sars electronically. Alternatively, submit your documents at a branch.
- If you fail to respond after receiving the first letter, a second will be sent. Failure to comply again will result in a call from an auditor giving you a minimum of five business days to send the relevant documents.
- Upon failure to comply at all, Sars will conduct an assessment based on non-submission of the relevant material to verify the return/declaration.

According to Somaya Khaki, project director of Tax Suite at the South African Institute of Chartered Accountants (Saica), it is important to meet audit requirement deadlines.

"If a person who is required to submit a return does not do so by the deadlines indicated in the Sars notice, that person may be liable, on conviction, to a fine or to imprisonment for not more than two years," she explains.

"Taxpayers who have complicated returns, including other sources of income or expenses, should consider engaging a tax specialist to assist them in preparing and/or reviewing their income tax return prior to submission, in order to avoid issues which may be raised by Sars at a later date." ■

editorial@finweek.co.za

This week one lucky reader can win a copy of *Binoculars, gravel road & map: Your Kruger National Park guide* by Frans Rautenbach. The author visited the park countless times over 50 years and this book serves as a definitive guide for anyone wanting to visit the iconic attraction. To enter, complete the quiz on our new-look website www.fin24.com/finweek.

1 **True or false?** Russia has started bombing Syria.

2 **True or false?** King Buyelekhaya Dalindyebo is the king of the Abathembu.

3 **True or false?** NSA whistle-blower Edward Snowden is living in exile in Venezuela.

4 SAA recently bought 6m copies of which newspaper for R10m to be read on its local flights and in its airport lounges:
- *Sunday Times*
- *The New Age*
- *The Daily Sun*

5 Nazir Alli is the CEO of which parastatal?
- Sanral
- Eskom
- SA Water

6 Krispy Kreme is opening its first outlet in Africa in Rosebank in November. What does it sell?
- Cakes
- Ice cream
- Doughnuts

7 Which of these countries does not have a rectangular flag?
- Madagascar
- Sweden
- Nepal

8 **True or false?** Mossgas, featured in last week's edition, is a gardening company.

9 **True or false?** Dianne Kohler Barnard is the chairperson of the DA.

10 **True or false?** In last week's edition there was a country feature on Mauritania.

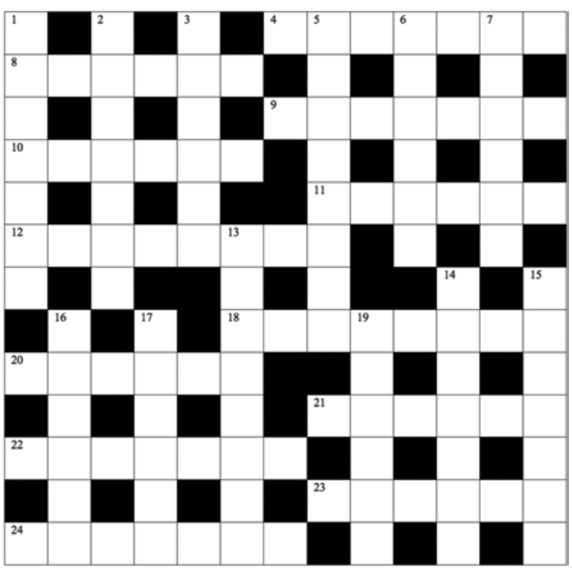
CRYPTIC CROSSWORD 604 JD

ACROSS

4 Number left in plane terminal (7)
8 Open account with an agency for gum (6)
9 Opposed to present day doggerel (7)
10 Flower feature of dinner in English restaurant (6)
11 Not for performance measurement (6)
12 Referring to gainful time worked by two learners with expert backing (8)
18 Vulgar chat when woman drops round without guard (8)
20 Company carman's pen (6)
21 Bill finished badly to be fair (6)
22 Pardon the sailors when lovesick (7)
23 Family conveyance (6)
24 Make up about time inside that place (2,5)

DOWN

1 Hopeful with lady and gentleman getting together (7)
2 Pickets sport the French play (7)
3 Fight with girl over a sausage (6)
5 Short countryman financially embarrassed (8)
6 Plug to wear out before 30 years, say (6)
7 Carry on compiling CV (6)
13 Disconcert toxophilist (4,4)
14 Issue Estimated Time of Arrival and name for return journey (7)
15 It's retsina for crying out! (2,5)
16 French goods only a sucker would buy? (6)
17 Pin one's ear to begin discussion (6)
19 About 50 to 199 relatively rich in lime (6)



Solution to Crossword NO 603 JD

ACROSS: 1 Colonise; 5 Aunt; 9 State; 10 Bicycle; 11 Bier; 12 Occipita; 13 Second innings; 18 Cry out to; 19 Eats; 20 Magneto; 21 Olden; 22 Nine; 23 Essayist

DOWN: 2 Outside; 3 Ontario; 4 Subscriptions; 6 Unction; 7 Toerags; 8 Action; 13 Sick man; 14 Cryogen; 15 Nausea; 16 Ideally; 17 Gutless

On margin

A short guide to the Middle East

KN Al-Sabah's 2013 letter to the *Financial Times* made the rounds on social media recently as people try and make sense of the ongoing turmoil in the Middle East and flood of refugees from the region:

Sir, Iran is backing Assad. Gulf states are against Assad!

Assad is against Muslim Brotherhood. Muslim Brotherhood and Obama are against General Sisi.

But Gulf states are pro-Sisi! Which means they are against Muslim Brotherhood!

Iran is pro-Hamas, but Hamas is backing Muslim Brotherhood!

Obama is backing Muslim Brotherhood, yet Hamas is against the US!

Gulf states are pro-US. But Turkey is with Gulf states against Assad; yet Turkey is pro-Muslim Brotherhood against General Sisi. And General Sisi is being backed by the Gulf states!

Welcome to the Middle East and have a nice day.

Don't drink and drive

Three drunk guys get into a taxi. The driver knows they're drunk. He turns the engine on and quickly turns it back off.

"We've arrived," he says. The first drunk pays the driver, the second drunk thanks him, and the third drunk slaps him.

Thinking that the third drunk is onto him, he asks: "What was that for?"

The third drunk replies: "CONTROL YOUR SPEED NEXT TIME! You nearly killed us!"

Inappropriate bar banter

Three men are drinking at a bar when a drunk wanders in. He staggers up to the counter, and points at the guy in the middle, shouting: "Your mom's really good in bed!"

Everyone expects a fight, but the guy ignores him, so the drunk wanders off and bellies up to the bar at the far end. Ten minutes later, the drunk comes back, points at the same guy, and says: "I just slept with your mother, and it was sweeeeeeeeet!"

Again, the guy refuses to take the bait, and the drunk goes back to the far end of the bar. Ten minutes later, he comes back and announces: "Your mom liked it!"

Finally, the guy speaks up. "Go home, dad, you're drunk."

"...believe it or not, that is the correct slide."

Verbatim

Chris Bos @Chuka_Bos
AB InBev buying SABMiller. Does this mean Castle Lager will taste worse or Budweiser will taste better in the future? #foodforthought

Greg Serandos @gserandos
@Chuka_Bos It will all be awful. #Badweiser

Funny School Answers @ComedyTextings
Stu(dying)
Stu(died)
I think not.

Alan Garner @AlanHungover
Why doesn't someone invent a clear toaster so you can see how toasted your toast is while it's toasting?

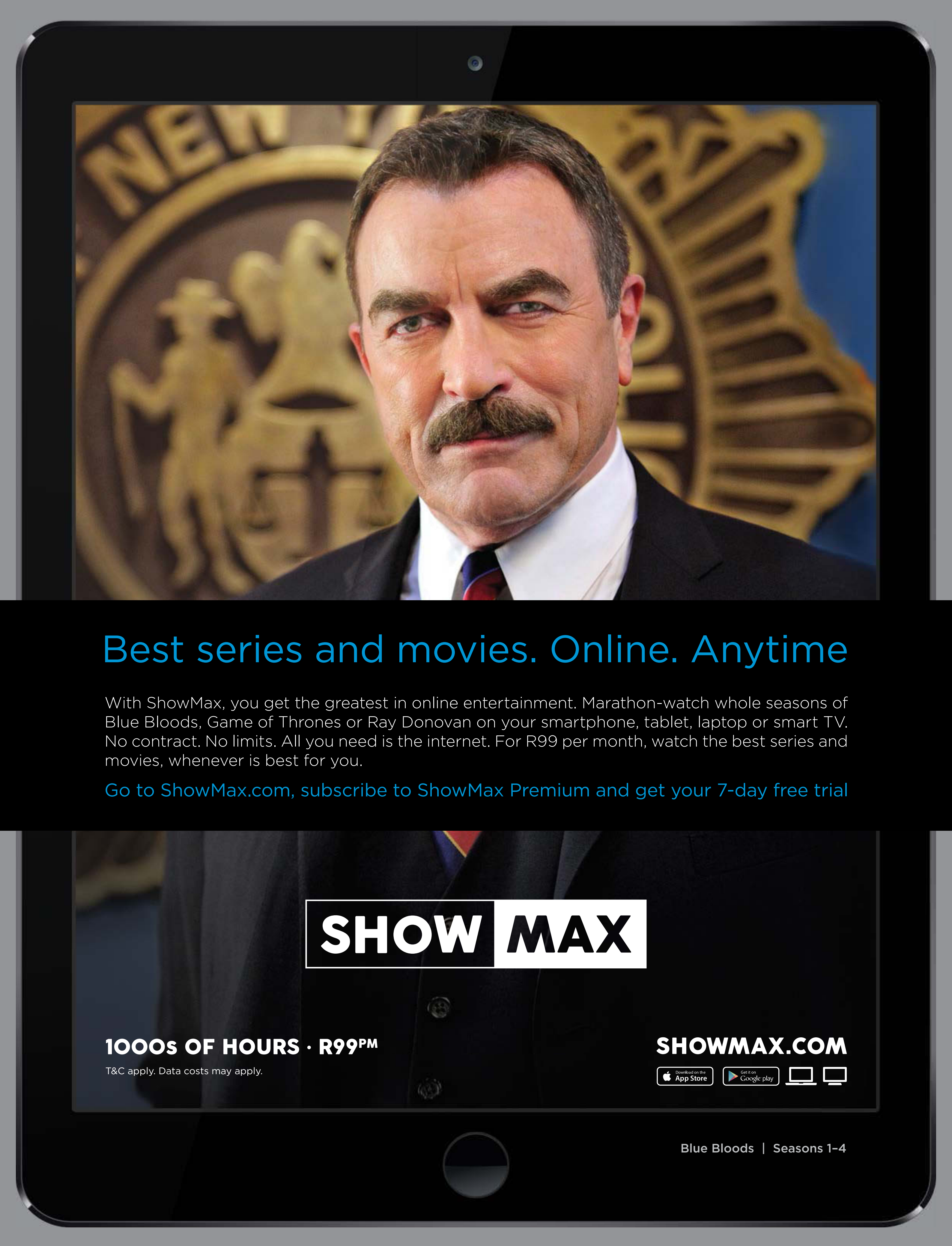
Common Bitchy Girl @ComedyPedia
Does anybody know how I can send an enemy request on Facebook?

Electric carmaker Tesla's founder Elon Musk in an interview with Germany's *Handelsblatt:*

Apple just hired some of Tesla's most important engineers. Do you have to worry about a new competitor?
Important engineers? They have hired people we've fired. We always jokingly call Apple the 'Tesla Graveyard'. If you don't make it at Tesla, you go work at Apple. I'm not kidding.

Do you take Apple's ambitions seriously?
Did you ever take a look at the Apple Watch?

"I grew up in Edinburgh. It was a cold, messy and miserable place to grow up, and I dreamed of going to tropical, colourful, hot countries." – Prof. Angus Deaton, winner of the 2015 Nobel Memorial Prize in Economic Science, tells *The New York Times* how his upbringing influenced his decision to focus on economic development. Deaton was awarded the Nobel Prize for his work to improve the data that is used to shape economic policy. He focused on individual consumption choices to better understand broader economic trends.


Best series and movies. Online. Anytime
With ShowMax, you get the greatest in online entertainment. Marathon-watch whole seasons of Blue Bloods, Game of Thrones or Ray Donovan on your smartphone, tablet, laptop or smart TV. No contract. No limits. All you need is the internet. For R99 per month, watch the best series and movies, whenever is best for you.
Go to ShowMax.com, subscribe to ShowMax Premium and get your 7-day free trial
SHOW MAX
1000s OF HOURS · R99PM
T&C apply. Data costs may apply.
SHOWMAX.COM
App Store
Google play
Blue Bloods | Seasons 1–4